# SELECT COMMITTEE ON CONSUMER CREDIT

Hearings held at Parliament Buildings,
Toronto, Ontario, 3rd day of December, 1963

---ON COMMENCING AT 10:00 A.M., DECEMBER 3, 1963.

THE CHAIRMAN: We have with us this morning Mr. David E. Wood, Executive Vice-President of the Household Finance Corporation of Canada. I will ask Mr. Wood to introduce to us the gentlemen that he has with him.

MR. WOOD: Thank you, Mr. Chairman. Mr. Chairman, ladies and gentlemen, on my right is Mr. R. A. MacKenzie of our Public Relations Department and on his right is Mr. R. W. Stevens. Mr. Stevens is associated with _____ and is our General Counsel and a member of our Board of Directors. We have prepared today a written submission dealing with the history, background and the operating procedures of our Company, particularly in Canada. I would appreciate the opportunity of reading this submission to you. I might say we will do the best we can to answer any questions that you may have with regard to our Company but in the event that there are any that we cannot answer today we will appreciate the opportunity of submitting a memorandum on the subject at a subsequent date.

THE CHAIRMAN: That will be quite satisfactory. Each member has a copy, I believe, of your brief. Carry on.

MR. WOOD: "Household Finance Corporation of Canada was incorporated by special act of the Parliament of Canada in 1928 under the name Central Finance Corporation. In 1933, when Central's principals desired to withdraw their funds, Household Finance Corporation, with Headquarters in Chicago, purchased

the shares of Central which, at that time, had outstandings of $448,000 and it became a wholly-owned subsidiary.

"Today Household Finance Corporation of Canada operates 279 branch offices in all ten provinces (106 branches in Ontario) from its Headquarters in Toronto and Divisional Headquarters in Vancouver, Toronto, Montreal, and Halifax.

U. S. BACKGROUND

"In the United States Household Finance Corporation or its antecedents have continuously been in the business of making small loans to consumers since 1878. Today Household (this is in the U.S.) operates 1021 branches in 47 states.

"For a number of years Household had been aware of the need for consumer loan legislation and when, in the early 1900's, the Russell Sage Foundation of New York, a philanthropic organization dedicated to the improvement of social and living conditions, showed interest in this problem, Household vigorously supported its programme.

"From 1908 to 1917 the Foundation aided by Household and other interested parties conducted extensive and detailed studies of the need for a source from which wage earners could obtain small cash loans. It found that the need was very real and that it was being exploited by unscrupulous individuals who took advantage of loopholes in existing legislation covering interest, usury and money-lending, to prey on necessitous borrowers. The Foundation concluded that the

best means of providing the service was through competitive private enterprise operating under laws which would protect the borrower.

"The Foundation sponsored the preparation of a model small loans bill which was enacted in the States of Illinois, Indiana, and Maine in 1917 and was the forerunner of similar legislation passed in other states and eventually in Canada. Thus the United States was the first country to introduce laws designed to protect the particular class of borrower with which we are primarily concerned. Today there are only two states which do not have laws to effectively regulate consumer loans and Household has no branches in these states.

CANADIAN LEGISLATION

"Household, from its inception, has always used its best efforts to promote the enactment of small loan legislation wherever it has carried on business and the experience gained in the United States was put to good use in Canada. When Household entered the Canadian scene in 1933 there was no general law which effectively regulated consumer loans. It was obvious to anyone close to the subject that high rate lenders were not hampered by the existing laws and that many borrowers were suffering from exorbitant charges and harsh collection practices. Household set out to see what could be done to obtain general legislation which would provide for regulation of the business and protection of the small sum borrower. From 1936 through 1939 a small group of ethical lenders, of which Household

was one, made numerous representations to the Federal Parliament with the active support of business leaders, public spirited citizens, better business bureaux, and newspapers. The studies resulting from these four years of efforts to obtain a suitable law are clearly recorded in the debates and proceedings of the House of Commons and the Senate and we believe materially assisted in the preparation of Bill 97, which was introduced by the government in 1939 and became the Small Loans Act.

SMALL LOANS ACT

"The Act, as passed in 1939, became effective January 1, 1940, and provided an all-inclusive maximum rate of 2% per month on the unpaid balance of any loan made for not more than $500. Effective January 1, 1957, the Act was amended to include all loans made for not more than $1,500 and reduced the rates to the following:-

2% per month on any part of the unpaid principal balance not exceeding $300,

1% per month on any part of the unpaid principal balance exceeding $300 but not exceeding $1,000,

½% per month on any remainder of the unpaid principal balance exceeding $1,000 but not exceeding $1,500.

"To our knowledge these are the lowest rates provided by any small loan law in the world. They are certainly lower than those provided in any state in the United States. In Great Britain the Moneylenders Act, 1927, provides that in any dispute regarding interest, if the rate is less than 48% per annum, the

responsibility is on the borrower to prove the rate is unconscionable; if it exceeds 48% per annum the responsibility is on the lender to prove the rate is reasonable.

CANADIAN CONSUMER LOAN ASSOCIATION

"The basic purpose of the Small Loans Act is the protection of the borrower. With this same objective in mind Household was active in promoting and supporting the formation of the Canadian Consumer Loan Association. The principal functions of the Association are to improve operating standards and to promote the adoption of ethical operating policies. As a charter member Household fully supports the Association's policies and the Association's submission to this Committee.

POST WAR DEVELOPMENT

"Prior to the enactment of the Small Loans Act in 1939 Household had been reluctant to expand its operations because of the unfavourable reputation of the business caused by the unethical practices of high-rate lenders. Under ordinary circumstances, and given a buoyant economy, such expansion would have commenced as soon as the act was passed. However, World War II intervened and it was not until 1945 that this development began to take place.

"By the end of 1945 Household had 33 branch offices and loans outstanding of $12,000,000. Consumer debt was at a low ebb. The tremendous backlog of demand for goods and services which had built up during the period of war-time scarcities was suddenly

released at the war's end. This contributed not only to the growth of Household but also of the consumer loan and consumer dredit business generally. Thus by 1957 Household had 238 branch offices and loans outstanding of $164,000,000.

"At this point it may be useful to examine Table 1 which includes all of the components generally considered to make up consumer credit.

TABLE 1

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| CASH LOANS | (Millions of Dollars) | | | (% of Total Consumer Credit) | | |
| | 1949 | 1957 | 1962 | 1949 | 1957 | 1962 |
| Household | 48 | 164 | 230 | 5.9 | 6.2 | 5.4 |
| Other Consumer Loan Cos. (1) | 29 | 183 | 414 | 3.5 | 6.9 | 9.7 |
| Banks (2) | 173 | 421 | 1183 | 21.1 | 15.9 | 27.8 |
| Credit Unions (3) | 63 | 258 | 575 | 7.7 | 9.7 | 13.5 |
| Total | 313 | 1026 | 2402 | 38.2 | 38.7 | 56.4 |
| SALE CREDIT | | | | | | |
| Retail Dealers | 389 | 826 | 1039 | 47.6 | 31.2 | 24.4 |
| Instalment Sales Finance Cos. | 116 | 780 | 771 | 14.2 | 29.5 | 18.1 |
| Consumer Loan Cos. | -- | 15 | 45 | - | .6 | 1.1 |
| Total | 505 | 1621 | 1855 | 61.8 | 61.3 | 43.6 |
| TOTAL CONSUMER CREDIT | 818 | 2647 | 4257 | 100.0 | 100.0 | 100.0 |

Sources: Bank of Canada Statistical Summary Financial Supplement, 1957.
Bank of Canada Statistical Summary, May, 1963.

Notes: (1) Loans made by licensees under the Small Loans Act and affiliated companies other than Household.

(2) Loans to individuals other than:

(i) Loans for business purposes
(ii) Home Improvement Loans
(iii) N.H.A. Mortgage Loans
(iv) Loans fully secured by marketable stocks and bonds.

(3) Not secured by mortgages.

Now you will note here that we have separated Household Finance Corporation from the other consumer loan companies. And here we show it for the Household, Other Consumer Loan Companies, Banks, Credit Unions and then any sale credit that there is outstanding as well and the total. Note number one refers to loans made by the licensees under the Small Loans Act and affiliated companies other than Household. Note number two we have eliminated loans for business purposes, Home Improvement Loans, N.H.A. Mortgage Loans and loans fully secured by marketable stocks and bonds. And in Note #3 we have eliminated mortgages as security, as secured loans.

"The left hand part of this table shows the dollar amounts of credit held by each of the different types of creditors. The right hand part shows these same amounts expressed as percentages of the totals. Looking at the right hand side of the table it can be seen that there has been considerable fluctuation in the relative size of the shares held by each of these different types of creditors. Probably the most noteworthy fluctuation has been that of the banks whose relative share, after declining from 21.1% ($173,000,000) to 15.9% ($421,000,000) in 1957, more than regained this lost ground in the next five years and reached 27.8% ($1,183,000,000) by the end of 1962. This rapid rise between 1957 and 1962 was undoubtedly due to the development by the banks of various loan plans slanted to consumers at rates in excess of 9 per

cent simple interest per annum. The credit unions too enjoyed a considerable increase between 1957 and 1962, but not nearly as spectacular as that of the banks.

HOUSEHOLD'S LENDING OPERATIONS

"Household's loan policy is based on a desire to render a satisfactory loan service to all qualified applicants. The proper handling of each applicant is the most important phase of our business. It is necessary to give prompt, courteous service to each prospective customer and businesslike consideration to his needs.

"Our basic loan policy -- and this is spelled out in our Manual -- is to lend money in an amount and for a length of time consistent with the applicant's qualifications. Household recognizes that a loan which strains the borrower's credit capacity and creates difficulty in making repayment is helpful neither to the borrower nor the lender. The borrower's qualifications must include consideration of ability to pay, paying habits, income, indebtedness, employment conditions and stability, character, security when used, or assets, if any, such as property equity. In an effort to determine the extent of a prospective borrower's indebtedness so that we can avoid the danger of overloading his credit, Household is a member of Lenders' Exchanges wherever they are available and also uses the services of commercial credit bureaux in many communities. In the practical application of this policy at the present time we are making loans to about 50% of those

who apply.

"The company makes over half a million loans in Canada every year. The most important and largest part of Household's business is in loans under the Small Loans Act which at the end of 1962 accounted for 88% of the total." Now I might say that this 88% is by amount. By number of loans made, the loans under the Act accounted for 97.2%. "The remaining 12%, or 3.8% of number, is in loans from $1,501 to $2,500 varying from 12 months to 36 months maturity. Second mortgage loans are made only in the Province of Ontario and comprised only .06% of our total Canadian business or 64 loans for $139,000 as of July 1, 1963. We do not advertise second mortgage loans nor do we seek them. They are only made to applicants who qualify in every respect except for that of chattel security and are usually made to existing or former customers. When real estate security is pledged no other security is taken.

"The loans which Household makes under the Small Loans Act range from $50 to $1,200 and vary in maturity from 6 to 30 months, depending on the size of the loan, the limitations of the Small Loans Act and the requirements of the borrower. Loans between $1,000 and $1,200 are made on a very limited and selective basis and no loans are made in the range $1,200 to $1,500 because the maximum permissible rate on the part of the loan balance which exceeds $1,000, but does not exceed $1,500, is only ½% per month or 6% per annum. The combination of the rates in the Small Loans Act of

2%, 1%, and ½% per month produces the following rates for the loan sizes shown when the loans are repaid according to contract:-

| Amount of Loans | Rate per Month | Rate per Annum Payable Monthly |
|---|---|---|
| $1,000 | 1.47 | 17.64 |
| 1,100 | 1.43 | 17.16 |
| 1,200 | 1.39 | 16.68 |
| 1,300 | 1.34 | 16.08 |
| 1,400 | 1.30 | 15.60 |
| 1,500 | 1.27 | 15.24 |

Here you will note we move up from the $1,000 loan, which has a monthly rate of 1.47 and an annual rate of 17.64%, up to the $1,500 loan with a rate of 1.27 and an annual rate of 15.24%.

"Loans between $1,501 and $2,500 are made at a rate of 9% discount which produces per annum rates ranging from 17.78% to 21.73% depending on the term of the loan."

If you would like to make a note of it, the 12 month contract is the one which produces 17.78, a 24 month contract is 19.84, a 30 month contract is 20.77 and a 36 month contract is 21.73 because on a precomputed loan of this type the factor which affects the rate is maturity or length or term of the contract.

REBATES ON PREPAID LOANS

"In the case of loans of $1,500 or less which are regulated by the Small Loans Act the question of rebate does not arise. The Act provides that no part of the cost of the loan may be deducted or received in advance." In other words, the charges are made on a day by day basis. "The Act further provides

that 'the borrower may repay any loan or any part thereof before maturity on the date on which any instalment thereof falls due, without notice, bonus or penalty'.

"Household has always expressed its method of rebate on any precomputed loan (that is any loan over $1,500) in the note which is signed by the customer. On loans over $1,500 where the discount method is used, rebates are calculated according to the widely used Sum of the Digits method more commonly known as the "Rule of 78ths". It is recognized as being a logical way to calculate rebates which is fair for both borrower and lender. An explanation of this method is attached as Appendix 7.

COLLECTIONS AND DELINQUENCY

"Household's collection policy requires that customers whose accounts are overdue be treated in a friendly and businesslike fashion with proper attention given to their rights and dignity. The company expects customers to repay their loans in a manner consistent with their ability to do so and permits no unreasonable demands to be made of them.

"Accounts more than 60 days overdue which in 1962 amounted to approximately 19% of outstandings require the expenditure of considerable time and effort. In many cases branch office staffs spend a great deal of time in helping a customer reach a solution to a problem which developed after the loan was made. These problems arise most often because of unemployment, illness, lay-offs or strikes. Various methods are used to overcome such difficulties including

temporary reduction of payments, extension of term, or additional cash to pay off other debts but sometimes the only alternative is simply to wait until the customer gets back to work. Household considers it good business to help borrowers regain a sound financial footing.

"While charge-off and bad debt recoveries vary according to economic conditions, gross charge-off in 1962 was 1.16% of average outstandings and net charge-off (gross less bad debt recoveries) was .73%; the average for the past five years was 1.24% from gross charge-off and .97% for net charge-off.

"Standing instructions in Household's branch offices clearly state that no foreclosure on household goods is to be effected without first obtaining the approval of the Director of Supervision and the Secretary of the company. So far it has not been necessary to take this action. In some instances, but only with the approval of supervision, automobiles or other equipment have been foreclosed but such seizures are rare. For example, in our 268 branches in 1962 there were 44 seizures compared to 530,500 loans made that year. In some instances where unusual misfortune has befallen the borrower after the loan is made, the loan is voluntarily written off and the contract is cancelled.

DISCLOSURE OF COST OF LOAN

"The terminology "cost of loan" has special significance when related to the charges made

by licensees under the Small Loans Act. The Act makes it clear that "cost of loan" includes every cost the customer is required to pay from first application to the final payment. Rates in the Small Loans Act are expressed in terms of percent per month on reducing monthly balances, and licensees therefore show the rate in their notes in this way. Since the Interest Act requires that any statement of interest for any period less than a year must also contain the yearly rate, licensees also show the rates in the following manner:-

> 2% per month (24% per annum payable monthly) on any part of the unpaid principal balance not exceeding $300;
>
> 1% per month (12% per annum payable monthly) on any part thereof exceeding $300 and not exceeding $1,000; and
>
> ½% per month (6% per annum payable monthly) on any remainder thereof.
>
> After last payment falls due:-
>
> 1% per month (12% per annum payable monthly) on entire unpaid principal balance until fully paid.

"The cost of the loan in dollars is easily calculated by a simple multiplication of the amount of the monthly payment times the number of payments in the contract and deducting the principal amount of the loan. Because Household and other small loan licensees already make disclosure in both of the ways usually suggested as desirable, we believe that loans made under the Small Loans Act should be excluded from any further legislation on this subject.

"On loans over $1,500 Household shows, in a prominent box at the top of the note, the cost of each loan clearly set out in dollars. In addition, in

the body of the note, the rate is expressed as 9% per annum discount. The reason we give more prominence to stating the cost in dollars is that we have learned from experience that this is the information our customers want to know. The discount method of calculation is used because of its administrative advantages in that it eliminates the necessity of monthly calculation of charges.

PERSONNEL

"Household has in Canada a total of 1,547 employees of which 287 men and 316 women are on the staffs of offices in Ontario. The average age at time of employment for male employees is 22 years and the branch managers have an average length of service of 9.5 years. Great emphasis is placed on training and the administration of the training programme is regarded as one of the manager's most important duties.

"The new employee goes through a ten day introductory training period which, in the larger cities, is given in the form of classroom instruction in offices specially equipped for this purpose. In the centres not so equipped the manager is responsible for this instruction. Following the introductory training the employee commences a course of study which, in from 8 to 20 months, qualifies him for advancement to assistant manager.

"A final course of study is designed to qualify him for the additional responsibilities of branch management and this takes an average of two years. This course ends with him working under one of

a group of managers specially selected for their training ability and general competence. We find that as our employees are dealing with the most intimate financial problems of our customers that such emphasis on training is essential. It qualifies our employees to give the advice necessary to help the customers solve their financial problems.

MONEY MANAGEMENT AIDS

"Through a subsidiary, Money Management Institute, Household Finance Corporation makes available booklets and filmstrips designed to assist consumers in obtaining the greatest possible benefits from the incomes they earn. For more than 30 years H.F.C. Money Management educational materials have served individuals, families, and groups in this very important area. Experience proves that money management skills must be learned just as reading, writing, or driving a car are learned. In both Canada and the United States experts in the fields covered by the booklets are consulted to ensure that the finished material is authentic and of broad application in both countries.

"In a preamble to each of the booklets in the series Household's President, H. E. MacDonald, says in part:-

'Just as a good physician is interested in public health and a good lawyer in effective legislation, so H.F.C. is interested in personal and family financial stability. To put this conviction into action we started an educational program in 1930. Today, our series of Money Management booklets and

filmstrips cover all important areas of personal and family economics as well as consultation with specialists in education, business, and government.'

"It is gratifying to Household that these Money Management materials are regularly requested by teachers at many schools including MacDonald College, Ste. Anne de Bellevue, Quebec; MacDonald Institute, Guelph, Ontario; University of New Brunswick; University of Toronto; University of British Columbia. To date in 1963 we have had requests for Money Management materials from 236 schools of various kinds. It is noteworthy that the fastest growing number of requests are currently being received from High Schools and Collegiates across Canada. Sets of booklets have also been supplied upon request to many public libraries and churches as well as to the Canada Department of Agriculture, Extension Services.

"In the past five years the number of pieces of this material sent out from our Toronto Headquarters has totalled over 170,000 items. Yearly volume has increased from 23,000 pieces in 1959 to over 41,000 in 1962 and is running at an even higher rate to date in 1963. On mail requests a nominal charge of .15¢ per booklet is made to cover cost of postage and handling. Single copies of booklets are available, without charge, to our customers in branch offices.

"As part of this submission we are pleased to provide the Committee with copies of the programme of the money Management Institute and a list of schools in Ontario which have requested this material

in 1963, and we have placed a set of the material in front of you.

"In conclusion it is hoped that this submission has been helpful in giving to the members of this Committee a clearer understanding of a business which has played, and will continue to play, an important part in the economic life of this province, and of Canada."

Now attached here is various appendices. We have a list of the schools that have used our materials this year only, which is attached first, going on to various statistics, starting with Appendix 1.

The first one is the distribution of loans made by amount of borrowers' monthly income as percentage of total loans. And again I am sure you will notice, as you noticed yesterday in the submission of the C.C.L.A., that the vast bulk of our loans are made to customers who fall in the income bracket from 200 to 500. As a matter of fact, those three groups total up to 74.52%.

Secondly the ratio of average size of loan to average monthly income in each income class. You will note here that the average, and this includes our loans right on up to $2,500, this includes all our loans over $1,500, that here again the loan that is made is the equivalent of about one and one half times a man's monthly pay.

Distribution of loans made by scheduled maturity and average size by maturity. This

The following Ontario schools have requested Money Management materials from MFC since January, 1963:-

| | |
|---|---|
| Arnprior District High School | Arnprior |
| East Middlesex District High School | Arva |
| Athens High School | Athens |
| Dr. G. W. Williams Secondary School | Aurora |
| East Elgin Secondary School | Aylmer |
| Beamsville Secondary School | Beamsville |
| North Essex High School | Belle River |
| Blind River District High School | Blind River |
| Central Peel Composite School | Brampton |
| North Park Collegiate & Vocational Institute | Brantford |
| Pauline Johnson Collegiate | Brantford |
| Brockville Collegiate Institute | Brockville |
| Nelson High School | Burlington |
| Alexander Dunn School | Camp Borden |
| Chatham-Kent Secondary School | Chatham |
| Ursuline College | Chatham |
| Chelmsford Valley District Composite School | Chelmsford |
| Central Huron Secondary School | Clinton |
| St. Lawrence High School | Cornwall |
| Hill Street School | Corunna |
| Dr. C. J. Mackenzie High School | Deep River |
| Delhi District High School | Delhi |
| Victoria Park Secondary School | Don Mills |
| Downsview Collegiate | Downsview |
| Wilson Heights Jr. High School | Downsview |
| Cobourg District Collegiate Institute | Cobourg * |
| Rideau District High School | Elgin |
| Pelham District High School | Fenwick |
| Fort Frances High School | Fort Frances |
| J. F. Ross Collegiate & Vocational Institute | Guelph |
| Fergus High School | Fergus * |
| Garson-Falconbridge Secondary School | Garson * |
| Central Secondary School | Hamilton |
| Hamilton Teachers' College | Hamilton |
| Strathallan College | Hamilton |
| Westdale Secondary School | Hamilton |
| Westmount Secondary School | Hamilton |
| Iroquois Falls High School | Iroquois Falls |
| Richview Collegiate | Islington |
| Kemptville Agricultural School | Kemptville |
| Kingston Collegiate & Vocational Institute | Kingston |
| Loyalist Collegiate & Vocational Institute | Kingston |
| Notre Dame Convent | Kingston |
| Kitchener-Waterloo Collegiate | Kitchener |
| Rockwood Mennonite School | Kitchener |
| Macdonald Hall, O.A.C., Macdonald Institute | Guelph * |
| Listowell District Secondary School | Listowel |
| A. B. Lucas Secondary School | London |
| Clark Road Secondary School | London |
| G. A. Wheable Secondary School | London |
| H. B. Beal Secondary School | London |
| Sir Adam Beck Collegiate | London |
| London Central Collegiate Institute | London |
| Tweedsmuir School | London |
| Westminster Secondary School | London |
| Lucknow District High School | Lucknow |
| Midland-Penetanguishene District High School | Midland |
| Mitchell District High School | Mitchell |
| Napanee Secondary School | Napanee |
| New Toronto Secondary School | New Toronto |
| A. N. Myer Secondary School | Niagara Falls |
| Stamford Collegiate Institute | Niagara Falls |
| McLaughlin Collegiate & Vocational Institute | Oshawa |
| O'Neill Collegiate & Vocational Institute | Oshawa |
| Orillia District Collegiate | Orillia * |
| Donovan Collegiate Institute | Oshawa |

* Out of order

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| | |
|---|---|
| Glebe Collegiate Institute | Ottawa |
| Laurentian High School | Ottawa |
| Jeanne Mance School | Ottawa |
| Nepean High School | Ottawa |
| Notre Dame Convent | Ottawa |
| Chippewa Secondary School | North Bay * |
| Paris District High School | Paris |
| North Middlesex District High School | Parkhill |
| Parry Sound Composite School | Parry Sound |
| Parry Sound High School | Parry Sound |
| Pembroke Collegiate Institute | Pembroke |
| Perth & District Collegiate Institute | Perth |
| Crestwood Secondary School | Peterborough |
| Peterborough Collegiate & Vocational School | Peterborough |
| Lambton Central Collegiate & Vocational Institute | Petrolia |
| Hillcrest High School | Port Arthur |
| Port Credit Secondary School | Port Credit |
| S. D. G. High School | Prescott |
| South Carleton High School | Richmond |
| Dennis Morris School | St. Catharines |
| Lakeport Secondary School | St. Catharines |
| Merritton High School | St. Catharines |
| Central Elgin Collegiate | St. Thomas |
| Sarnia Collegiate Institute | Sarnia |
| W. A. Porter Collegiate Institute | Scarboro |
| Woburn Collegiate Institute | Scarboro |
| Bawating Collegiate & Vocational Institute | Sault Ste. Marie * |
| Elgin Avenue School | Simcoe |
| Saltfleet District High School | Stoney Creek |
| Lockerby Composite School | Sudbury |
| Annandale High School | Tillsonburg |
| Glendale High School | Tillsonburg |
| Alderwood Collegiate | Toronto |
| Bendale High School | Toronto |
| Bessborough School | Toronto |
| Branksome Hall School | Toronto |
| Central Commerce School | Toronto |
| Danforth Technical School | Toronto |
| David & Mary Thomson Collegiate Institute | Toronto |
| Duke of Connaught School | Toronto |
| Harbord Collegiate Institute | Toronto |
| Lambton-Kingsway School | Toronto |
| Metropolitan Separate School | Toronto |
| Notre Dame High School | Toronto |
| Queen Alexandra School | Toronto |
| Shaws Oakwood Vocational School | Toronto |
| Royal York Collegiate | Toronto |
| Vaughan Road Collegiate Institute | Toronto |
| University of Toronto, Ontario College of Education | Toronto |
| University of Toronto, Department of Household Science | Toronto |
| Wallaceburg District Secondary School | Wallaceburg |
| Wiarton District High School | Wiarton |
| University of Waterloo | Waterloo * |
| Eastdale Secondary School | Welland |
| Churchill Heights Public School | West Hill |
| West Hill Collegiate Institute | West Hill |
| Henry Street High School | Whitby |
| Anderson High School | Whitby |
| Northview Heights Collegiate Institute | Willowdale |
| Harry E. Guppy High School of Commerce | Windsor |
| Herman Collegiate Institute | Windsor |
| St. Mary's Academy | Windsor |
| Weston Collegiate Institute | Weston * |

* Out of order

## APPENDIX 1

### DISTRIBUTION OF LOANS MADE BY NUMBER AND BY AMOUNT OF BORROWERS' MONTHLY INCOME AS PERCENT OF TOTAL LOANS - 1962

| Monthly Income | By Number | By Amount | Average Size |
|---|---|---|---|
| 0 - 100 | .37 % | .13 % | $ 213 |
| 100 - 200 | 7.99 | 3.65 | 263 |
| 200 - 300 | 22.02 | 15.84 | 414 |
| 300 - 400 | 31.81 | 32.43 | 587 |
| 400 - 500 | 20.69 | 24.76 | 689 |
| 500 - 750 | 15.15 | 20.21 | 768 |
| 750 - 1000 | 1.58 | 2.39 | 872 |
| Over 1000 | .39 | .59 | 868 |

## APPENDIX 2

### RATIO OF AVERAGE SIZE OF LOAN MADE TO AVERAGE MONTH[illegible]COME IN EACH INCOME CLASS

| Month | 1962 |
|---|---|
| 0 - [illegible] | 2.53 |
| 100 - 20[illegible] | 1.58 |
| 200 - 30[illegible] | 1.61 |
| 300 - 40[illegible] | 1.67 |
| 400 - 500 | 1.56 |
| 500 - 750 | 1.31 |
| 750 - 1000 | 1.04 |
| Over 1000 | .67 |
| AVERAGE | 1.51 |

## APPENDIX 3

### DISTRIBUTION OF LOANS MADE BY SCHEDULED MATURITY AND AVERAGE SIZE BY MATURITY - 1962

| Maturity | Distribution By Number | Distribution By Amount | Average Size Loan Made |
|---|---|---|---|
| 1 - 3 Months | .11 % | .02 % | $ 106 |
| 4 - 6 | 1.56 | .29 | 108 |
| 7 - 9 | .51 | .13 | 153 |
| 10 - 12 | 4.13 | 1.17 | 166 |
| 13 - 15 | .68 | .26 | 222 |
| 16 - 18 | .46 | .41 | 526 |
| 19 - 21 | 38.79 | 18.14 | 273 |
| 22 - 24 | .65 | .95 | 847 |
| 25 - 30 | 51.01 | 71.63 | 820 |
| 31 - 36 | 2.10 | 7.00 | 1951 |
| AVERAGE | 24.79 % | 28.15 % | $ 584 |

## APPENDIX 4

### DISTRIBUTION OF LOANS BY PRINCIPAL USE OF BORROWED MONEY

Number of Loans Made for Each Use as Percent of Total Loans

| | 1962 |
|---|---|
| *To Consolidate Overdue Bills | 28.62 % |
| Automobile Purchase or Repairs | 14.08 |
| Travel & Vacation Expenses | 11.77 |
| Clothing | 9.02 |
| Medical, Dental & Hospital | 4.68 |
| Home Furnishings & Appliances | 7.26 |
| Assist Relatives | 5.23 |
| Taxes | 3.06 |
| Household Repairs | 3.15 |
| Miscellaneous Equipment | 2.19 |
| Insurance | 2.07 |
| Miscellaneous | 3.34 |
| Moving Expenses | 1.24 |
| Education | .55 |
| Payments on Real Estate Loans | .87 |
| Business for Self | .19 |
| Rent | .87 |
| Fuel | .97 |
| Funeral Expenses | .44 |
| Food Bills | .40 |
| TOTAL | 100 % |

*All loans are classified under the heading describing the use to which the larger part of the loan was applied. Where several bills are paid and no major purpose appears, the loan is classified under the heading "To Consolidate Overdue Bills."

## APPENDIX 5

### DISTRIBUTION OF LOANS BY OCCUPATION OF BORROWERS (TYPE OF JOB)

Number of Loans Made to Borrowers in Each Occupation as Percent of Total Loans

| Occupation | 1962 |
|---|---|
| Props., Mgrs. & Off., Excl. farm | 4.15 % |
| Craftsmen, foremen & kindred workers | 24.31 |
| Operatives & kindred workers | 18.18 |
| Laborers, except farm & mine | 16.45 |
| Clerical & kindred workers | 11.57 |
| Sales persons | 2.76 |
| School Teachers | .94 |
| Pro. & semi-pro wrkrs., exc. tchrs. | .97 |
| Unemp; Pensions or ind. incomes | 1.84 |
| Occ. not reported | .01 |
| Farmers & Farm mgrs. | 1.27 |
| Farm laborers & foremen | .34 |
| Domestic service workers | .04 |
| Protect. service workers | 1.81 |
| Other service workers | 8.70 |
| Members of Armed Forces | 6.66 |
| TOTAL | 100 % |

# APPENDIX 6

## AMOUNT OF LOANS MADE TO BORROWERS BY MARITAL STATUS AS PERCENT OF TOTAL LOANS

| Marital Status | |
|---|---|
| Married | 81.15 % |
| Single - Male | 10.60 |
| Single - Female | 2.75 |
| Widowed- Male | 1.07 |
| Widowed- Female | 1.11 |
| Divorced- Male | .43 |
| Divorced- Female | .31 |
| Separated- Male | 1.73 |
| Separated- Female | .85 |

shows the number of months that our customers take for the loans which they obtain.

Next the distribution of loans by principal use of borrowed money.

Next the distribution of loans by occupation of borrower, that is his type of job, and the percentage in each group.

And lastly the amount of loans made to borrowers by marital status as a percentage of total loans. Here again this might be expected because there are more of them. Married people form the largest percentage of our customers.

The final appendix -- if you would like me to read this, please do so. This is an explanation of the Sum of the Digits or the Rule of 78ths.

"The rule of 78ths is an arithmetical device for determining the rate at which charges are considered to be earned as the balance of an instalment loan is paid down. Although the rule of 78ths literally applies only to instalment transactions involving twelve equal monthly payments, its principle can be applied to transactions for shorter or longer periods.

"As a theory, it falls between two extremes. One way to look at the charge is to assume that it is earned at the beginning of the transaction and collected in full with the first payment or two. Another way to look at it is to assume that all payments are first applied to pay off the principal amount loaned so that only the final payment or payments apply to cost.

The rule of 78th, however, loke other commonly used interest rules, assumes that part of each monthly payment is applied to charges and the balance to principal. The question is - what will the proportion be?

"According to the rule of 78ths, the total amount of charges is assumed to be divided up or earned, in proportion to the monthly outstanding balances of the face of the loan. For this purpose, consider that a loan (plus charges) is to be paid in twelve equal monthly payments. The amount owed for the first month may be considered as equal to twelve times the monthly payment. When the first payment is made, the balance is reduced accordingly and it may be considered equal to eleven monthly payments.

"What we have, then, is a series of monthly balances equal to 12 times the monthly payment, 11 times the monthly payment, 10 times, and so on to 1 times the payment. The sum of the figures 12, 11, 10, 9, 8, 7, 6, 5, 4, 3, 2, and 1 is 78. Since the balance for the first month is equal to 12 monthly payments, the charge allocated, or earned, in that month is equal to 12/78ths of the total. The balance for the second month is equal to 11 monthly payments, hence the charge earned in that month is equal to 11/78ths of the total.

"Thus if a twelve month loan were repaid in full at the end of two months the borrower would have had the use of 23/78ths of the instalment units. He would therefore be entitled to a rebate of 78 - 23 = 55 or 55/78ths of the total charge.

"If the loan is for a longer term than

twelve months the total number of instalment units is greater than 78. For instance, there are 120 monthly instalment units in a fifteen month loan, 171 in an eighteen month loan and so on. However the principle of computing the rebate is the same regardless of the loan period.

"Another method of expressing this formula is by using the sum of the monthly balances remaining after prepayment related to the sum of the monthly balances at the time of the making of the contract. The HFC Promissory Note sets forth this formula in the following wording: "The amount rebated shall be that portion of the Amount of Discount which the sum of the monthly balances of the Face Amount of Loan scheduled to be outstanding after the instalment date nearest to the date of such prepayment bears to the sum of all monthly balances of the Face Amount of Loan scheduled to be outstanding at the date hereof, both sums to be determined according to said schedule of payments."

I can only agree with you that the wording is pretty rough and I would be pleased to have any suggestions for a simpler method of expressing it, but actually I think the main concern is that this does give, by incorporating it in our Note, it does give our customer a legal right to a rebate, which is what we feel is important.

That, gentlemen, concludes the brief.

THE CHAIRMAN: Thank you, Mr. Wood. I am sure the members will have a few questions. Mr.

Sedgwick?

MR. SEDGWICK: Mr. Wood, this is obviously a very carefully prepared brief and is very comprehensive, so very few questions occurred to me. But firstly, I see on page 1 you say that Household Finance is now a wholly owned subsidiary. I take it from that there is no Canadian share (last word inaudible)

MR. WOOD: That is correct, sir.

MR. STEVENS: Except through the regular qualified shares. It's a real point, Mr. Sedgwick, by virtue of the fact that Household Finance Corporation of Canada was incorporated under a special act of the loan companies and therefore each Director must hold for his own benefit (last words inaudible)

MR. SEDGWICK: On page 2, where you deal with the Small Loans Act, and point out that you are not much interested in loans above $1,000 because the rate drops thereafter to a half a percent per month. The Act was passed in 1939 and it is said that the dollar today is worth about 40% of the 1939 dollar. Do you think the Act should be stepped up with this as its base as to its ceiling? For instance it would take something like, shall we say, 750 or 800 dollars of today's money to equal the floor of 300 in the 1939 Act.

MR. WOOD: Of course, sir, the Act was revised again in 1957 and the ceiling was raised to $1,500. This is always a matter of opinion. It is my own opinion and the opinion of the Company that the -- and I believe the study of the Committee -- that

the main purpose behind the Small Loans Act is to protect the necessitous borrower. The person who is apt to be evicted from his home or something along this line, not the man that's negotiating to buy a home or something along this line. He normally is not considered to be a necessitous borrower in the same sense of the word. And it was the feeling of the Committee in 1957 that $1,500 did indeed protect the necessitous borrower. I happen to feel that this is also true. People who are borrowing the larger sums of $2,500, in many, many cases have a different purpose of loan than those in the smaller category. We find in the lower groups sometimes they are paying grocery bills, utilities and other things that have fallen behind during a period of emergency. Whereas in the larger group they may be consolidating bills but they are consolidating bills of a different type. I don't feel that your necessitous borrower, in the main, falls over the $1,500. But I would say this, if it is felt at any time in the future, and I am sure that this will come in the future, that it is desirable to increase the ceiling above $1,500, very serious consideration will have to be given to an upward revision of the Act because, as you are aware, the rates in the Act -- because of the fact that the area between $1,000 and $1,500 is virtually not being served -- Household is making a few loans in this area, more than anything as an accommodation to our customers and as an experiment. We are not happy with what we see and it may very well be that we will be withdrawing

completely from that field in the not too distant future.

MR. MacDONALD: What field is that?

MR. WOOD: Between $1,000 and $1,500.

MR. SEDGWICK: If the Act were changed so that the Act would render $1,000 to $1,500, that would make it, I take it, attractive for you? If 1,000 gave a 1500 yield?

MR. WOOD: A 1% rate?

MR. SEDGWICK: Yes.

MR. WOOD: I'm sure it would as far as my own Company is concerned, sir.

MR. SEDGWICK: I know how felonious comparisons are, but it occurred to me your rates are about the same effective rate as the banks, isn't that right?

MR. WOOD: In certain areas. We are higher on our -- no, I would have to say we are higher. We do have -- of course we don't make the $1,500 loans, so I hate to bring that up now. No, we would have to say we are higher than the banks or the credit unions. Unless you move into a very --

MR. SEDGWICK: As far as the Credit Union -- could you put the difference percentagewise?

MR. WOOD: Percentagewise, it is my understanding, and I think this varies with the Credit Union, that the going rate normally is 1% a month and this may be reduced by any patronage dividends that are paid, which may reduce the balance in some cases, I am sure, down as low as 6, 7, or 8%. But then I guess

there are other Credit Unions that are unable to make these dividends, pay these dividends, and therefore the rate would remain approximately 1% per month or 12%, roughly, per annum.

MR. SEDGWICK: With which your loans reasonably compare, isn't that right?

MR. WOOD: In some areas, but not in the small bracket, not below $300, where we get 2% or 24% per annum.

MR. SEDGWICK: Yes, I understand that. That's all my questions.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: Mr. Chairman, I would like to also compliment the Household Finance Company on their presentation. And in particular in my area in which I have been repeatedly been interested. I agree with all your percentage calculations either using the actuarial method or the direct ratio method, they come out within one decimal point. Also I think this is the -- perhaps I shouldn't say it categorically, -- but this is one of the few briefs which have taken the trouble to give us the rate percent in regard to loans where it wasn't otherwise clear. So I do appreciate that.

One question following along from that is, on page 8 where you explain the method of disclosure to the borrower of the cost of the money, you set it out clearly in dollars and you also explain that the calculation is made as a 9% per annum discount. Do you also reveal to the borrower the 17.78% on a 12 month

contract over $1,500, that you do reveal to us on page 6?

MR. WOOD: No, we do not, sir. We have not done so because we felt that there was little demand for this information. That has been our experience over the years. We are quite willing to do so, we have no objection to doing so, we can do so very readily and we would be pleased to do so. As a matter of fact I have been considering recommending that to one group because of the publicity that has been about -- there is no problem. But we do not disclose it as the 17 or 18 or 19, simply because we felt it had no value.

MR. IRWIN: Well, there is no problem, it can be done and, let's put it this way, there would be no harm in doing so?

MR. WOOD: No, sir.

MR. IRWIN: And it might convey a little more intelligence to the borrower if he happened to think in those terms?

MR. WOOD: It might. I doubt it, but it might.

MR. IRWIN: One other question and I hope I am not putting anybody on the spot in this regard, but on page 4 in your Table of Cash Loans, the total consumer credit differs by 50 million dollars exactly from the Table 2 presented by the Consumer Loan Association yesterday. Have you any idea --

MR. WOOD: Yes, I can tell you the answer to that. The Credit Union brief -- the latest information they had, at least in the C.C.L.A. brief,

the latest information they had, I think, was 1961, for credit unions. And we got the information just within the past week so we incorporated it in our brief, for 1962.

MR. IRWIN: So your percentage is off slightly?

MR. WOOD: That is correct. Ours incorporates the 1962 figures for the credit unions.

MR. IRWIN: One other comment or question or asking for your opinion on the Appendix on the Rule of 78ths, which is commonly used in a number of lending situations to determine rebates. One comment is that this method, as you know, does parallel the nature of compounding of interest by an actuarial method. What I would like to ask though is do you think that in your section of the industry that it is common to give rebates in the case of prepayment of loans on the basis of the Rule of 78ths or 21st or 45ths or 300ths, for that matter, because I have observed in some cases where this rule is not followed and perhaps the rebate is on some arbitrary method, that the effective rates which the lender can achieve by not following the rule of 78ths can go up to 50 and 75% quite easily.

MR. WOOD: This is quite correct.

MR. IRWIN: And oddly enough sometimes to the surprise of the lender to realize, in some instances, that this is the effective rate he is getting in the case of prepayment. Would you have any comment on this?

MR. WOOD: I would say that not only was it common in our industry but I am sure that most companies do it, but at the same time I would say there are some who possibly don't give it quite on this basis.

MR. IRWIN: Would you make a further --

MR. WOOD: But I think all the major companies do it this way.

MR. IRWIN: Would you care to make a further suggestion that this might be a good thing to impose on the industry?

MR. WOOD: Personally, I'm all for it. We do it, we have always done it, we think it's good, we think there are dangers in it if you don't do it because you can certainly pack the rate.

MR. LAWRENCE: Certainly what?

MR. WOOD: Effect the rate.

MR. IRWIN: That's all, Mr. Chairman.

THE CHAIRMAN: Mr. Lawrence?

MR. LAWRENCE: Well, on that point, is there any legislation in some of the States that you know of, imposing that form of rebate?

MR. WOOD: I, unfortunately, cannot answer that. I do not know.

MR. STEVENS: There is. We could give the Committee a memorandum on that.

MR. WOOD: Yes, we could give you a memorandum on which of the States does apply it.

MR. LAWRENCE: Your Company is in an ideal position to give us the benefit of the legislation

in America.

MR. WOOD: We would be pleased to pass that on to you, yes.

MR. LAWRENCE: Does your Company only loan up to $2,500?

MR. WOOD: That is correct. This is a self-imposed limit.

MR. LAWRENCE: What happens if somebody comes in and wants a loan over that. Do you have subsidiary companies that does it? And in the field between $1,500 and $2,500 you want security, of course, collateral security?

MR. WOOD: It's a matter of good judgment, Mr. Lawrence, yes. I would say that as a general rule we would like security. This can take the form of furniture, which most people have, a car. We might, indeed, in this particular situation take a cosigner or endorser.

MR. LAWRENCE: I see.

MR. WOOD: But on the other hand, if a person comes in and he's first class, he will get it without any security whatsoever except his own signature.

MR. LAWRENCE: Now you discourage your branch managers taking loans in the $1,000 to $1,500 bracket?

MR. WOOD: Yes, sir.

MR. LAWRENCE: What form of discouragement does that take as far as the consumer is concerned. If somebody comes in for a $1,200 loan does

your branch manager usually encourage him to take a $1,600 loan, say?

MR. WOOD: There are two approaches to it. I'll be honest with you and tell you exactly what we do. If he comes in and he applies for $1,200, we do not want that loan. If he qualifies and can use $1,500, then we will solicit him for $1,500. If he cannot make use of the $1,500, we try to keep him happy at $1,000. Now if we think we are going to lose him and he's a good customer, I guess we would make him a loan of $1,200.

MR. LAWRENCE: I'm sure it doesn't apply to Household because Household has a very good reputation. But certain of the Canadian lenders, in any event, are operators who encourage people to get over the $1,500 limit so that the Small Loans Act doesn't apply. I think we heard of one case where a loan of $1,505 was made and of course the person didn't know exactly what they were getting into. But I mean there is no, as far as you know --

MR. WOOD: We concentrate our efforts in the small loans field. This is the area that we have built up over the years. We are one of the oldest companies and we have a fair reputation and I think when you remember that almost 97% of our loans by number are in the small loans field. We would like to make them over $1,500 if we can.

MR. LAWRENCE: I'm not denying -- I mean this is what you are there for.

MR. WOOD: That is correct.

MR. LAWRENCE: There was a suggestion made to us yesterday that the federal Small Loans Act up to $1,500 should remain at that because above $1,500 you are really not in the "small loans field", and yet your company considers itself to be a small loans lender and you go up to $2,500. Would you comment on that contradiction, would you want to?

MR. WOOD: Well, nothing except that we are providing a service. I do believe there is a difference in the type of customer. Were you here when the question was asked before about the raising of the ceiling?

MR. LAWRENCE: Yes.

MR. WOOD: I feel there is a difference in the type of borrower and it's a different business. We actually operate it through a separate company.

MR. LAWRENCE: You mean over $1,500?

MR. WOOD: Yes. Household Finance Corporation of Canada makes the loans under the Small Loans Act and Household Finance Corporation Limited makes those loans over $1,500.

MR. LAWRENCE: The statistics that you have given us here are --

MR. WOOD: Comprehensive, both ways.

MR. LAWRENCE: Thank you.

THE CHAIRMAN: Mr. Bukator?

MR. BUKATOR: Mr. Chairman, it is rather refreshing to note that the calculation of interest is not too difficult, that is for some companies.

You are to be commended but you will be criticized by some of your colleagues no doubt.

I would like to comment on your booklets too. I think that type of educational program (rest of statement inaudible). I think this is an educational program and the public should eventually be enlightened by the fact that this Committee has prodded into other people's affairs, and justly so. But the most encouraging comment and this may change their attitude a bit, one or two disagreed that interest rates should be disclosed, they may change their minds after this morning. All I ask is that when anyone borrows money is to reveal to the public the interest. I think it would help your business rather than hinder it.

MR. WOOD: I wouldn't want to mislead you there, Mr. Bukator -- (laughter) -- the question that was directed to me was in loans over $1,500 rather than those under the Act.

MR. BUKATOR: Well, under the Act they are disclosed anyhow, are they not?

MR. WOOD: Yes.

MR. BUKATOR: Sure, they know. I think the same method that is used in the Small Loans Act would maybe enlighten the public to what we are up to. Thank you very much.

THE CHAIRMAN: Mr. MacDonald, do you have any questions?

MR. MacDONALD: Mr. Chairman, my first is really a comment. I was rather interested in your

comments at the top of page 2, because our job here is to find a standard that can be applied to the industry as a whole. And I take it that you not only welcome a standard, but you won't operate where there isn't one?

MR. WOOD: That's correct, sir. We would not change -- when we first came into operation in Canada in 1933, we purchased the shares of Central Finance Corporation, but we did not change our name to Household until an Act was passed.

MR. MacDONALD: The Small Loans Act?

MR. WOOD: Until the Small Loans Act was passed. We operated as Central Finance Corporation during that period of time.

MR. MacDONALD: The specific comment I was referring to is that you are out of the two States --

MR. WOOD: We will not go in.

MR. MacDONALD: Why exactly? Would you mind telling us?

MR. WOOD: We are working trying to get better Acts simply because we do not wish to be associated with unethical lending practices. It's as simple as that. You would only have to go back about ten years to find that number was probably closer to fifteen, and we have worked most industriously to try to have effective small loan laws enacted in the various States and we have been successful along with many, many other equally respected groups of people who have the same desires we have.

MR. MacDONALD: Well, I think that's helpful from our point of view. On page 3 can you give me any background on this Moneylenders Act? I find this astounding, 48% is a sort of break-off point?

MR. WOOD: That's right.

MR. MacDONALD: There is no other legislation. This is the basic legislation under which they operate?

MR. STEVENS: The General Usury Act in the United Kingdom was repealed in 1858 and they have nothing until the Moneylenders Act ever since then.

MR. LAWRENCE: (Inaudible)

MR. MacDONALD: This next question is practically facetious but not a little serious. I'm curious to know in your Appendix 5, in which of these categories do politicians fall? (Laughter)

MR. WOOD: I'll have to look that one up because we don't get too many. That's probably under miscellaneous. (Laughter)

MR. MacDONALD: Well, Mr. Chairman, my final question I want to ask is, do I conclude correctly from Table 1 that you do not engage at all in loans to finance retail sales?

MR. WOOD: Sales finance?

MR. MacDONALD: Yes.

MR. WOOD: Yes, sir, you are correct.

MR. MacDONALD: You are not in it at all?

MR. WOOD: No sales finance.

MR. MacDONALD: Why?

MR. WOOD: Well, I guess probably because we have been able to put out money that we feel is sound in our own field where we feel we are specialists and we prefer to remain in that field. Maybe some day we will diversify, I don't know. We feel we are specialists in the consumer loan field and that's where we will make our way.

MR. MacDONALD: Well, on that point, does your parent company not have an interest in this?

MR. WOOD: They are experimenting. They do some acceptance work, very, very, small, negligible.

MR. MacDONALD: In Ontario?

MR. WOOD: No, no, in the States.

MR. MacDONALD: In the States, not in Canada?

MR. WOOD: Nothing in Canada at all.

MR. LAWRENCE: You don't have an interest in an Ontario Acceptance?

MR. WOOD: None at all.

MR. LAWRENCE: Or vice versa?

MR. WOOD: No, sir.

MR. MacDONALD: Where you are doing experimenting, what is your thinking at the moment on how you come to grips with the problem of assuring yourself that the original contract was a contract without misrepresentation or even fraud?

MR. WOOD: The only thing which we

might have that might fall in the same category is what we call merchant referral, where we have certain merchants who do refer applications to Household if the people desire credit. But we insist that those customers come into our branch offices and we have the sole right to decide whether or not they obtain a loan. But before we will accept applications from any merchant we check him out not only as to his method of operation, but if he is selling one product only, we check the product to make certain that delivery is good, they stand behind their product and so on. Then each time a supervisor goes into the branch office he takes a number of these loans that have been referred. We made the decision and everything else but they have been referred by dealers. And he checks with the customer to determine whether or not the customer is satisfied. Now we have had some where they were not too satisfied and we have had to go back to the dealer and I believe we have been successful in just about every case in gathering either restitution or a change of vehicle or whatever it is.

MR. LAWRENCE: There is no recourse?

MR. WOOD: But there is no recourse, no, none at all.

THE CHAIRMAN: Mr. White, do you have any questions?

MR. WHITE: Well, I'd like to add my congratulations to those of my colleagues, Mr. Wood, for your brief and your candor.

Now on page 6, section 16, the rate per

month and so on, in the Table. I suppose you have some formula of some description to arrive at that?

MR. WOOD: Yes, sir.

MR. WHITE: Could we have an account of that formula?

MR. WOOD: We will certainly get you one.

MR. IRWIN: It's the actuarial method.

MR. WOOD: We can get you one.

MR. IRWIN: It does check out to the actuarial method.

MR. WHITE: Does that obviate the need for us --

MR. WOOD: Would you still like one?

MR. WHITE: I think it would be nice. I'd like to see it myself.

The rate per month, 1.47 times 12 gives that 17.64?

MR. WOOD: Correct.

MR. WHITE: If it were two years it would be times 24 months -- excuse me, excuse me -- I'm wrong.

MR. WOOD: It would be the same rate per annum.

MR. WHITE: Yes, the same rate per annum. Well then, if you made a loan for $1,000, you would always charge 1.47?

MR. WOOD: That is correct. The biggest problem that arises is the $1,010 or $1,050 -- you have a different rate for each one. As a matter of

fact, just as a matter of interest to you, there are -- because all our loans over $300 and up to $1,500 -- for those companies who do make them, and there are very few made -- because each one has a blend of 2% plus some 1% and then subsequently some of one-half of 1%, every different loan size has a different rate of interest. And in the tables provided by the Department of Insurance for the use of the lenders there are some 707 different interest rates between $300 and $1,500.

MR. WHITE: If it were fairly broad, of course, you wouldn't need to have nearly as many rates. I mean to say, here we've got, at $100 increments, we've got about one-half of 1% spread. I'm looking at $100 increments on the left-hand side and looking at the right-hand side the effective rate of interest (rest of sentence inaudible). So if the effective rate of interest were required, using a formula similar to the one you have used, and if this gave a tolerance of some kind, there would not be a large number of rates involved.

MR. WOOD: Not in that situation. Our prime concern, of course, with the loans under $1,500 is that we do feel currently -- and of course this is the matter the Committee has to decide on -- that these are adequately explained as the customer wants them. And we would have an administrative problem if we had these -- my Company does not use all 707 different rates, we use something around 216 or 220 -- but even with 216 you have to provide the necessary tables and you have to have a girl check the rate and type it into

the contract. Each of these things add to the administrative cost on a type of business which right now is so tight to the line that there isn't any room for competition. It's not like the old days. We used to cut our rates. When we had a 2% rate across the board, we made numerous efforts to work below that rate, which I would be very glad to tell you about if you are interested. We made six or seven attempts to work below the 2% rate, but now it's just so tight we can't. We just watch everything in the way of expenditures and this would mean that we would have to look it up -- you don't have to calculate it because it's on a form -- type it into the contract on each one of the contracts. We feel right now that our customers do have a pretty good idea because even if it works -- and this is against us -- the very first rate, if you look at our contract, the very first rate which we disclose at the top is 2% per month, 24% per annum, payable monthly on any part of -- and then you move on to the next line. So any person who is one of these scanners among our customer readers looks at it and thinks we charge 24. But we would rather have people think we charge 24 than to have this problem of having to compute this rate and put it on each one of our many, many hundreds of thousands of contracts each year.

MR. WHITE: Well, what you are saying, I guess, is it's possible but you don't think it's useful --

MR. WOOD: I don't think it's useful, but it's very possible -- I don't think it's useful.

MR. WHITE: And your philosophy is probably like mine, you would just as soon see a minimum of government control.

MR. WOOD: Why do something that isn't going to serve any purpose.

MR. WHITE: I'm not saying that my opinion is that it's useless --

MR. WOOD: No, I think all these things are useful, but you have to question the use in relationship to the expense involved and so on. And it can be confusing. People can be confused on interest. There's just no question of that. I remember as branch manager not many people asked me the rate of interest. But those that do, they say, "What does your rate of interest run?" "Well, it's 2% per month, 24% per annum." "Oh, this is going to cost me $24.00." "No, it's not going to cost you $24.00, it's going to cost you $13.46." "Then the rate is 13.46?" "No, it's not 13.46". "How can it be 24% per annum and $13.46?" So I have to embark on a long explanation to the customer that because he paid back one-twelfth of the contract each month so that at the end of six months he had paid it half back. Therefore if you only had the average use of half the loan for six months and therefore the simple annual interest rate is double, or roughly double the dollar cost. They still aren't satisfied because they couldn't understand it. I wasn't making any sense. Then you get such ridiculous things -- for those of you who were fortunate enough to get overdrafts in the old days --

a man went in to get an overdraft from his banker and he wanted $50.00, he would say to him, "What's this going to cost me?" He would say, if he expressed it in interest, "52% per annum, I want it per week so it's 52% per annum." "My God, I'm not going to stay here and deal with you people, you're a bunch of thugs. But before I leave, what's that going to cost me?" ".50¢". Now, .50¢ per one week for $50.00 is 1% a week or 52% per annum. Now that the rate is down to $1.00 for those exceedingly fortunate people who can still get an overdraft, it's now 104, and the same rate applies for one day. So if he goes in and gets an overdraft for $50.00 for one day the rate exceeds 700% per annum which to me is absolutely meaningless.

MR. WHITE: Yes, that's right, I'll agree with that. Getting back to Section 16, "Amount of the Loans", you could very easily provide (rest of sentence inaudible) -- I mean a little table?

MR. WOOD: There's no denying it could be done.

MR. WHITE: And if there were a spread -- you are charging this rate, so -- if there were a spread of maybe one-quarter of 1%, certainly one-half of 1%, that would just be about 12 effective rates, would it not?

MR. STEVENS: I think you are assuming, Mr. White, that each loan is for a multiple of $100. There are 700 loan sizes between 300 and 1500 dollars. So there are 700 rates.

MR. WHITE: But each one jumps by 100

only with a difference of one-half of 1%.

MR. STEVENS: Yes (rest inaudible)

MR. WHITE: Including a maximum for the particular interest.

MR. WHITE: Let's say a fellow took out a loan for $1,025, that's close to $1,000 so if you put down 17.6 you would be within the tolerance. What do you select -- there's a bankruptcy, for instance at that particular point -- you file your claim, how much do you collect.

MR. WOOD: It has no bearing on that.

MR. WHITE: You stipulated one rate which is not the same as the dollar cost.

MR. WOOD: No, as a matter of information only. The borrower would owe you the amount stated on the contract. The effective rate charged, and this illustrates the 17.6%, is a matter of information for the borrower.

MR. WHITE: It has nothing to do with the enforcement of the contract. So there would be 12 rates involved, would there not, up to $1,500?

MR. WOOD: There would be a $900 spread between your -- 9% spread -- between your 15.24 at $1,500 and your 24% at $300. There would be a 9% spread so, taking each one at one-half of --

MR. WHITE: Well, I was thinking of going up from the $300 to the $1,500, opposite each amount you would have the effective rate. But you don't have to get into the hundreds and hundreds of rates, effective rates, there.

MR. WOOD: Oh, no, not as long as there is a tolerance.

MR. WHITE: There would be twelve.

MR. WOOD: I'm sure this could be done, it's just a question of the practicality of it and the requirement of it, when it has really little value, to the customer.

MR. SEDGWICK: With a tolerance of, say, 1% would permit you to reduce it to about twelve instead of 700, is that your point?

MR. WHITE: And that could be incorporated into a table and the table could be hung on the wall and there would not be thousands of people on IBM machines trying to calculate it. That's all I have.

MR. MacDONALD: Mr. Chairman, may I ask a question? If this kind of simplified approach were for information only, but the customer at least would know within the tolerance what he is paying, if that is a decision that we finally came to, would you still feel that you would want to be outside?

MR. WOOD: Because of the administrative costs we feel that we are so close to the line right now that every little operation, you would be surprised if you knew the operations that we have eliminated to try to reduce our expenses to live within this Act.

MR. MacDONALD: I think you might be ultimately the people who would be hurt if you are outside because then people would pound home the proposition that you are charging 24%.

MR. IRWIN: They are now.

MR. MacDONALD: Well, they are now but they would have it even further if you were outside any legislation.

MR. WOOD: It hasn't affected us so far in spite of the fact that it is generally accepted that the banks lend at 6. I guess if the expression of the interest rate in the contract was going to be a cure-all, Household would have been out of business quite a while ago. Certainly the banks have been offering lower rates and I would have to say that some credit unions do to. But this hasn't been the story. Because there is more to obtaining a loan than just straight interest. The interest is only one factor. Equally important are the terms of repayment. Can you handle the monthly payment. The security that is required. All the other factors. Do you have a job that is required. And the fact that somebody advertises loans at 6% doesn't mean a thing until the borrower wants in, sits down with the lender, together they go over the intimate details of his problems and together they decide on an amount and on a term for which he qualifies. Rate doesn't mean a thing up to this point. You have got to be able to get the money.

MR. IRWIN: Just one observation, I would ask you opinion, it has been my observation in business, competitive business, is when everybody is subject to the same tariff then competition is not affected, nobody gets any leverage. I certainly concede that, even using Mr. White's methods of tabling the

information, it would add to your costs marginally. But then if it were a universal application to all people in the same field it would also add marginally to their costs and it really wouldn't affect competition in any way because you must keep in mind that while you are governed by the Small Loans Act, I don't think it is the suggestion here that the government should declare what the rate of interest should be. It's just that it should be disclosed. And if the same cost factor were added to everybody then you could just increase your rate slightly for everybody.

MR. WOOD: But, sir, we cannot increase our rate such as the sales finance companies can, and so on. We are already hard pressed in there.

MR. IRWIN: I made that exception because you are governed by the Small Loans Act. I am trying to think of a more universal application. It's the same with taxes. The government puts on a new tax, there is a temporary leverage which some people get other than, an advantage over others, a sales tax for example that comes into effect, there is a temporary advantage to some, but after inventories have been consumed then everybody is on the same level and as long as the tariff applies to everyone, then competition is not affected, the price all over goes up, for everyone. I wonder if you would like to comment on that. Try and forget that you are under the Small Loans Act for the moment, the cost of disclosure in this form would be the same for everyone.

MR. WOOD: You are saying eliminate my

own industry because I would have to say that we are so close to the line that we can't afford to take on any extra procedures of any type. When you talk about the other industries, I don't know their problems.

MR. IRWIN: I'm just asking for an opinion on a proposition that if, as a result of legislation, everyone has to incur the additional marginal costs, then everybody is in the same boat.

MR. WOOD: No, because some can finance without a consumer and we cannot.

MR. LAWRENCE: Well, you can in the area of small loans.

MR. WOOD: Oh yes, and this is no problem. We are not objecting to this one at all.

MR. LAWRENCE: That's what I was trying to --

MR. WOOD: Only the ones under the Act we would prefer --

MR. WHITE: What is the name of your company that deals with loans outside --

MR. WOOD: Household Finance Corporation Limited.

One point was made yesterday by Mr. White which I would like to maybe -- one point that was made here yesterday was that there is no competition. I think this is something that is too widely felt. There never is any competition regardless of how low our rates go. I'd like to spell it out that this has not always been the story. I'd like to give you the story of just what Household has done in this regard.

On January 1st, 1940 the rate was made 2% per month across the board to $500, which was the maximum amount. On October 1st, 1943 we dropped our rate to 2% to $300 and 1½ from $300 to $500. On January 15, 1945 we increased our ceiling to $1,000 and dropped our rate across the whole spectrum to 1½%. Now, lo and behold, in a matter of a very few months we had a federal government destine that the rate for the industry be 1½, because if we can operate at 1½, so can everyone else.

On January 2nd, 1947 we increased it to 1 3/4 to $700. We kept it at 1½ from $700 to $1,000. On January 15, 1949 we went to 1 3/4 on all loans. On October 16, 1950 we went 2% to five and 1 3/4 from five to a thousand. And finally in April, 1951 we gave up the battle and went to 2% across the board until such time as the Act of January 1, 1957. So there is competition when the rate is large enough to permit some competition.

MR. WHITE: Well, I wouldn't quarrel with that. However, however. I wouldn't repeat probably the remark I made yesterday even if interest in this problem were universally great, that a clear and simple declaration of the effective interest rates would improve the competitive nature of this industry, and I'm not restricting myself to the small loans firms; It will improve competition in the lending industry and would add a measure of efficiency to the accounting and would be very good for everyone concerned. I don't think that there are any exceptions to that. I think that

(Samuel ) and certainly (Dr. ) and many, many other applicants have expressed themselves on this point. They are univesally agreed that this should be the case.

THE CHAIRMAN: Mr. Sandercock? Mr. Reilly?

MR. REILLY: Yes, there were some points here, Mr. Chairman. Mr. Wood, I notice that Household does a lot of advertising.

MR. WOOD: Yes, sir.

MR. REILLY: You were saying about being close to the line. Do you do more advertising per unit or per capita than other organizations?

MR. WOOD: I do not believe so, sir. You might be a little surprised. I can give you some of our advertising figures. I know it seems every time I pick up my own radio or look at my own TV set I seem to hear of Household Finance. However, I feel this is more a tribute to the timing which we have selected. We try to pick the time that the man is shaving in the morning, going to work and the time he is driving home at night. So it seems that every time he turns on his radio, there we are. Let me give you an example of what we do. Here in Toronto there is a pretty good size market. We use the six phone books in the City and suburban areas. We use one radio for two one-minute spots per day and two one-half minute spots per day. So there are four times during the day which we are coming through. And the only other programme in the Toronto area is a ten-minute news

final on a TV station which we sponsor. That's all we have in Toronto.

MR. REILLY: Those spots are Monday through Friday?

MR. WOOD: That's Monday through Friday. But it represents 3.86%, I believe it is, of our total expenses.

MR. REILLY: Is this higher than most others?

MR. WOOD: Unfortunately I don't know what the others are spending. I suppose, as a percentage of expenses -- gosh I'd hate to pass an opinion, Mr. Reilly, I really don't know. I don't believe it would be out of line for the industry.

MR. REILLY: Mr. Wood, in connection with the Moneylending Act of Great Britain, I notice this is back in 1927. Do you know of any possible changes? That was 35 years ago and the whole problem of borrowing and lending money has changed so in the last 35 years, so drastically. Do you know of any possible changes?

MR. WOOD: No, I don't, no.

MR. REILLY: You have indicated on page 5 that you lend money in the second mortgage field only in Ontario.

MR. WOOD: Yes, sir.

MR. REILLY: Why do you restrict it to Ontario or why have you entered the second mortgage field in Ontario only?

MR. WOOD: Well, like all other fields

we experiment with them first for a reasonable period of time. We have been in it now a little less than three years in Ontario only. Many of the contracts are written for 36 months, although they vary. We just do not feel that we yet have the experience to go into it in a bigger way. We may, and if we do I'm sure it will be at lower rates than we are currently charging on our mortgages, which are at the same rate as other loans.

MR. REILLY: So that a second mortgage would cost a purchaser over 36 months anywhere from 17.78 and 21.73?

MR. WOOD: That is quite correct because we have not been specializing in them and I don't know whether we will get out completely.

MR. REILLY: Has it been your experience in the field from the standpoint of loss or that it hasn't been a particularly lucrative field that you --

MR. WOOD: We don't feel that it has been particularly lucrative. We've had some bad experiences, so I have not been too happy with what I have seen so far. But we will keep on experimenting until we can come to a definite decision one way or the other.

MR. REILLY: I was particularly interested in the Rule of 78ths. I have had a constituent of mine approach me in connection with a rebate in which she felt she wasn't getting the same amount back that she was entitled to and I was

questioning whether this rebate was used or the Rule of 78ths was used by all members of the C.C.L.A. Is this used by all members of the C.C.L.A.?

MR. WOOD: I could not say --

MR. REILLY:: Is this what Mr. Irwin was asking?

MR. WOOD: Yes. I'm sure that the major companies do. The C.C.L.A. really only deals with loans to $1,500. They have no figures, they have nothing over that amount, you see, so they wouldn't know what the members do. My own observations would lead me to believe that some do and some don't, but I believe the majority of companies would, big companies would.

MR. REILLY: Yes. In connection with it, you have it spread over a period of 12 months and you say it's the practice and can be applied over 30 or 36 months, but that it's generally used over 12 months.

MR. WOOD: Not necessarily. I suppose it's more common over 12 months because that is the more common loan repayment plan, but the same application applies for six months, 12 months, 18 months, 24 or whatever it may be. So that regardless of whether we make our loan over $1,500 for 15, 18, 24 or 30 or 36 months, the rule still applies. Actually the basic name of the rule is not the Rule of 78ths, but the Sum of the Digits, you see, and it has only become more or less common verbage to call it --

MR. REILLY: I'm glad to have a copy of

this rebate schedule here on the basis on which it is calculated at any rate, Mr. Wood. I notice that over 50% of your loans actually exceed over 30 months, or 24 to 36 months, and on the basis of the amount I guess it's over 75% of your loans are between 24 and 36 months. So you apply this amount of rebate on this basis, the Rule of the Digits, or whatever it may be?

MR. WOOD: That is correct. That is right in the note which we have signed by the customer, sir.

MR. STEVENS: Mr. Reilly, if I may add one other piece of information. The Rule of 78ths or the Sum of the Digits method of calculating rebates only applies when you have consecutive monthly instalments in equal amounts. So that if there is any variance as to the term of payments for the amounts of those monthly or regular payments, the rule does not apply in terms of rebate.

MR. REILLY: So if they prepay it, as well as if they are delinquent, it may interfere with the --

MR. STEVENS: No, no, I beg your pardon. If, as in certain instances, where a farmer will buy a piece of equipment or obtain a loan and his payments are on a seasonal basis and there is a difference in the amount that he pays during the winter months, the Rule of 78ths does not apply.

MR. REILLY: Thank you very much. And just, Mr. Chairman, so there will be no misinterpretation by my good colleague from Niagara Falls, I want him to

know that at no time in this Committee, and I assume that he was talking to me when he said someone on the other side might disagree with him, first I would like him to know that at no time have I ever opposed actual disclosure. I am in favour of disclosure all the way. I just want to make sure that he understood that point.

THE CHAIRMAN: Mr. Letherby, do you have any questions?

MR. LETHERBY: Looking over this Sum of the Digits or the Rule of 78ths, I would think that would be a good way to foul up the average man. (Laughter). It's for damn sure I couldn't figure it. But, Mr. Wood, I think like my colleagues that you have an excellent brief here and your Company is certainly doing a marvelous job in the small loans field. I would like your personal opinion about -- you said here a while ago that a lot of people are confused on the rate of interest and I agree with you. What is your personal thought or opinion after your great many years of experience in lending money, do people want to know the interest rate or the cost involved in borrowing?

MR. WOOD: Sir, it's a rarity to be asked the interest rate and if they do say what is the interest rate and you tell them they say, "No, I don't want to know that, I want to know the dollar cost." That's in my 27 years experience, I can count on the fingers and toes of my body the number of times I have been asked for the interest rate. It's just not a question that is asked.

MR. LETHERBY: How many toes do you have? (Laughter). I think it's a very excellent brief, Mr. Wood.

THE CHAIRMAN: Any other questions?

MR. WOOD: Mr. Chairman, I would like to make a couple of recommendations if I might. I feel very strongly that much of the abuse in the field has come from second mortgage lenders who are advertising low monthly payments and this, of course, is always the Heaven-sent answer to people with financial problems. But the hooker in the thing is that at the end you've got a large balloon payment and you find you can't meet this balloon payment so you are in again for another long period of time. It is my very strong recommendation that this Committee give consideration to the requirement that all second mortgages be amortized and balloon payments eliminated.

Point number two, I would like to suggest that serious consideration be given to teaching consumer credit in schools. Consumer credit has become a way of life in our economy, this is the way we pay our income and our realty taxes, it's the way we pay our rent or our house mortgage, it's the way we pay our utilities, our hospital and medical plans, our pension and group plans, our Union dues, our Church and charitable donations and through credit cards and charge accounts and budget accounts, this is the way we pay for our clothing, our furniture, our gas and oil for our car and in many cases even food, entertainment and public transportation. To me this has become an

essential part of our way of life in which nearly all families become involved. And I just feel that it's a subject that is more important, maybe, than some of the subjects we are currently learning in school because it's something that most families are going to meet in their daily way of life.

The third thing I would suggest is this, that there be a form of licensing of all individuals or groups who lend money professionally -- I'm not talking about the amateur who lends to his son -- but who lends money professionally at a rate of interest and who is not already licensed under some other Acts such as a credit union or bank or consumer loan company. And that he be required before he gets his licence to show experience, character and fitness. Again I have to feel -- we have all seen cases of it, of people who have come in -- anybody can call themselves a finance company, it doesn't matter, you don't have to have too much money, you can hang out a shingle and call yourself a finance company. We had one not too many months ago, a company that was known as a ten percenter, that paid its depositors 10% and pretty soon it got in real deep trouble and took off for Florida and the depositors lost their money. So everybody says, "There the finance companies go again". And we are all being lumped together, it doesn't matter who or what you are, anybody can apparently call themselves a finance company and I do feel that this could be controlled if some kind of a licensing system were set up. If you are going to lend money you must prove

experience, character and fitness to do the job.

Those are all the suggestions I have, sir. I've appreciated appearing here very much.

THE CHAIRMAN: We appreciate very much your recommendations, Mr. Wood. On behalf of the Committee I would like to thank Mr. Wood, Mr. McKenzie and Mr. Stevens for being with us. I can't add much to what has already been said. I think you have given us a very excellent brief and highly satisfactory -- I was particularly impressed with the educational programme which your Company has. I think that is something that the members of this Committee recognize as a very important feature and will become more so in the future. Thank you.

MR. REILLY: Mr. Chairman, before Mr. Wood leaves, on his third recommendation about having experience, character and fitness and so on. Does he know of organizations now who lend money who aren't licensed?

MR. WOOD: Specific companies, I would have to study that, but I feel certain that this would include some second mortgage companies who are not required to prove experience, character or fitness.

MR. REILLY: I thought they were licensed.

MR. WOOD: I think they are licensed, but I'm not too sure they have to prove experience, character and fitness.

MR. REILLY: Thank you very much. You would have to prove that the standards are awfully low

in some cases.

THE CHAIRMAN: We will take five minutes, gentlemen.

---SHORT ADJOURNMENT.

THE CHAIRMAN: (First part of statement inaudible) -- We have a copy of your brief, would you care then to read your brief to us?

MR. EDGAR: Thank you very much. By way of explanation, may I say that I wish I had the background and I wish our Company had the background and the experience of some of the others that have appeared before you. We are a relatively new Company. We were formed in 1954, as the brief will state. For a number of years we operated on a very limited basis in our Finance Company. We used it as a service only to our Acceptance Corporation and it wasn't until our Acceptance Company started to expand about two years ago that we started to expand our small loans and lending institution at the same time. At that time we hired Mr. Parks to look after this operation for us and he was probably the most sophisticated of this group and I am sorry that he isn't here today to be able to answer your questions, but we will do the best we can.

"Union Finance Company Limited is pleased to have the opportunity of appearing before the Select Committee on Consumer Credit and we would like to provide you with a background of our Company, its operating procedures and its policies.

"Our Company was formed in 1952. We

started with one office in Toronto, and four employees. Today we have 30 branches in eight provinces, providing employment to 112 persons. Our receivables have recently passed the $15 million mark, and we deal with over 22,000 families at an average amount of $985 each.

"Our Company is a member of the Canadian Consumer Loan Association, and supports the brief submitted by the Association to this Committee which outlines the policies of the small loan companies and money lenders operating under the Small Loans Act. Our business under $1,500 is strictly supervised by the Federal Department of Insurance.

"Most of our business faills under the classification of consumer loans, although we do some conditional sales financing of furniture and applicances, amounting to approximately 10% of our receivables. In our large loan business we extend credit to families in amounts up to $5,000, secured principally by chattel mortgages on household goods and/or automobiles.

"The rate on consumer loans over $1,500 which are secured by household goods and automobiles, is 1½% per month on the declining monthly balance, the annual yield on this business is 18%. (Actually that is about 19.54, to be factually correct. We use it as roughly computed at 1½% per month). There are no other hidden fees, service charges or bonuses. In the event that we make a loan which involves a somewhat higher risk because of the consumer's lower credit standing, lower security or job stability, we charge 1 3/4% per month on the declining balance. The annual

yield here is 21%(and I believe the correct yield is 22.6). On all these loans the customer is permitted to repay in advance without notice, bonus or penalty. Approximately 75% of our loans above $1,500 are made at the 1½% rate.

"Our brances analyze every credit application carefully and accept approximately 45 out of every 100 new credit applications. The remaining 55% are rejected on the grounds that an extension of credit to these would-be borrowers is not in the best interest of the borrower or family. The aims of our selective lending policy are twofold. First of all we seek to minimize our losses. The Company's records show that our policy is successful in holding such occurrences to a minimum. Our loss experience to date has been approximately 1¼% of volume written, which we consider to be reasonably in line, and our repossessions average about 35 per month. Our repossession factor is slightly higher than we would like, but this is due to the fact that we make a number of loans for the purchase of used automobiles. Secondly, we strongly value and maintain the goodwill of our customers. This is shown by the fact that many return to us when they need additional financial assistance.

"In dealing with thousands of customers who apply for loans we find that their main questions about a loan are -

(1) "How much will it cost to borrow a certain amount of money?" - and

(2) "How much per month will I have

to pay?"

"We believe that the answer to the first question is the essential element in the useful disclosure of the cost of consumer credit. In addition to showing the rate of interest per month and per annum, we also show the amount of money the customer receives, the amount of each payment and the number of payments. This format is exactly the same as required on our documents for loans controlled by the Small Loans Act.

"Licensees under the Small Loans Act are already required by law to give full disclosure of rates. In any legislative decision to require interest rate or dollar cost disclosure we believe that all establishments extending consumer credit - including department stores, chartered banks and credit unions - should be included so that the borrower has a complete picture of alternative sources of credit, terms of credit, and costs.

"In conclusion, we would like to repeat once again that we are convinced the majority of Canadians are now enjoying more comfortable homes and a much higher standard of living due to the fact that they are able to purchase on a sound credit basis. Your Committee has no doubt heard, we believe with exaggerated emphasis, about the small percentage of consumer credit users who become over-extended and are unable to repay their loans. We believe it is impossible to protect people from themselves, and we doubt if any legislation could ever prevent this minority from seeking and sometimes obtaining credit. However, in

many of the larger cities in Canada the small loan companies have established a Lenders' Exchange as a clearing house in order to try to curtail customers from becoming over-extended in their money dealings. (And we are a member of all the clearing houses).

"The demand for consumer credit will likely continue as personal incomes rise and our industry, in common with others, looks forward to a period of further growth based on continuing improvements in our service to the Canadian credit buying consumer."

MR. SEDGWICK: I have only one question, Mr. Edgar. On page 3 of your brief you indicated you have no personal objection to the disclosure of an approximate rate so long as all other establishments dealing in consumer credit were included in a similar restriction or provision, is that right?

MR. EDGAR: We would have no objection to it provided all lenders have it except for the one thing -- you say "approximate rate". All our documents, I believe, are legal documents and I don't think that we could show an "approximate rate" on a legal document.

MR. SEDGWICK: I know it's a very practical difficulty but it's also a difficulty in finding the precise rate.

MR. EDGAR: That is very true.

MR. SEDGWICK: That's all I want to know.

THE CHAIRMAN: Mr. Lawrence?

MR. LAWRENCE: You are one of the first groups to come before us to fess up that you are at least

1 involved in the used car business in an indirect way
2 and also furniture, conditional sales, conditional
3 loan business. The very fact that you come before
4 this Committee voluntarily obviously indicates to me
5 that you are not one of the people who abuse this
6 field. I don't think there is a practicing lawyer
7 or a practicing politician in the Toronto area who
8 hasn't had complaints from either clients or constituents
9 especially in these two field as far as the assignment
10 of the paper involved in these things is concerned.
11 You stress in your brief here about the small percentage
12 of consumer credit users who become over-extended and
13 are unable to repay their loans. I quite agree with
14 your views on that particular aspect of it. But there
15 is the other aspect, of course, where in many cases
16 if fraud itself has not been pressed, it has been
17 something pretty close to fraud as far as the sale of
18 these goods is concerned. And of course the vendor
19 takes back negotiable paper on these things and sells
20 them to a finance company. The finance company, of
21 course, not having any privilege originally on the
22 matter can then go after the purchaser of these things
23 for the full amount of the purchase price. In spite
24 of the fact that I have had many complaints made about
25 these practices over the last five or ten years, I can
26 never once remember Union Finance being one of them,
27 so your own Company is utterly clean. But, how do you
28 have this enviable record? I mean, when you take this
29 paper, how do you satisfy yourself that the original
30 deal is clean as far as the purchaser is concerned?

MR. EDGAR: Well, this is a most difficult thing to establish but our principle in operating with our Union Finance Company in the purchase of papers has been, we have made it a rule or stipulation with our branch managers that every transaction before they purchase must be checked out with the customer.

MR. LAWRENCE: With the customer?

MR. EDGAR: With the customer. He is instructed to communicate with the customer to talk to the customer to find out if he is satisfied with the automobile he has bought, if he knows what he has bought, if he knows the terms of his contract and at the same time, does he have the automobile in his possession.

MR. LAWRENCE: You do this before you accept the paper?

MR. EDGAR: We do this before we accept it.

MR. LAWRENCE: There is --

MR. EDGAR: Now this is as it applies to the small loan business, or shall I say to our loans in this lending company. With our Acceptance Company we do not always do this. This depends upon our knowledge of the dealer, our knowledge of the class of paper he submits, our knowledge of his integrity, our experience with him. If we find that this experience is incorrect then there is only one thing we can do and that is stop doing business with that dealer.

MR. LAWRENCE: This is obviously one of

the big field of abuse in this type of financing where a paper has been signed by the acceptance company; and the thought has been in the back of my mind, and I think one or two others of this Committee have expressed it too, that the law pertaining to recourse action against the vendor should be changed considerably so that when you accept paper without recourse this is the wrong principle. In other words, if you are buying up papers you should be just as liable as the vendor is. What would be your comment on this?

MR. EDGAR: Well, I don't think I can quite agree with that. I mean, after all, it's the customer's responsibility. And I would say in the large majority of cases, 95, 96, 97%, that the customers are very reliable people, they do these things themselves, they know where they stand. But it is the unfortunate few who for some unknown reason, maybe they are overly anxious to buy, maybe they think they have a good deal, but they don't take their precautions on their own behalf to check out the vendor.

MR. LAWRENCE: That would be the purpose of the legislation to protect this --

MR. EDGAR: Well, if you are trying to protect them I hope that you can find a way of doing it, but I really feel that it is, as you said yesterday, Mr. White, it's an educational process that has to be gone through by the customers.

MR. LAWRENCE: Well, what objection would you Acceptance Company have if the law as it exists now was changed to allow these people to go after

you to make good on the goods they are purchasing? If you are attempting to collect. That's basically what I'm getting at, what objections would your Company have?

MR. EDGAR: Well, I think we would have very serious objections to this because we are not in on the deal at the time that the deal is made. We are not talking to the customer. The customer is party to a contract between the customer and the dealer. We have no knowledge of the facts and therefore we have very little control over the actual completion of the contract, over the type of vehicle the customer is buying or any other facet of the actual transaction.

MR. LAWRENCE: Don't you think you have a duty, though, to find out some of these things? Before you accept the paper?

MR. EDGAR: No, I can't say that I do feel that we have a duty.

MR. LAWRENCE: Legally you don't, no.

MR. EDGAR: Really I don't feel that we have. I think it is the responsibility of the customer to be aware of what he is buying and I think it is a long-standing rule in legal law that the customer should be aware, let him know what he is purchasing.

MR. LAWRENCE: That was before the day of the welfare state.

MR. EDGAR: Could be.

MR. LAWRENCE: The other point was the question of copies of these papers. So often these people come in to me and say, "I'm being gypped by a finance company". And you work things out and you find

that originally he was gypped by the original vendor. And you try to get some information about it and the first thing you ask him, either as his lawyer or his politician, "Have you a copy of the original agreement?" And of course in 99.99% of the cases they say, "No". Is your Company policy to make sure that the original sales agreement --

MR. EDGAR: That he has a copy of it?

MR. LAWRENCE: That he has a copy of it or somebody certifies to you that the purchasor has a copy of that agreement?

MR. EDGAR: The customer acknowledges receipt of it.

MR. LAWRENCE: He acknowledges receipt?

MR. EDGAR: Well, it's at the bottom of the contract, on contracts which we supply we always impress them for completion have copies made for -- have a copy attached for the customer.

MR. LAWRENCE: Well, one final question. This is a field of very great abuse and I'm sure you are aware of it --

MR. EDGAR: Yes, I'm aware of it.

MR. LAWRENCE: You don't have to take my word for it. Believe me, this is a great cause of complaint. What is wrong with the present system and how can we rectify it. You people have a good record, as far as I'm concerned. You are obviously operating all right. What is wrong with other segments of your industry?

MR. EDGAR: Can you say what is wrong

with it, Mr. Mitchell?

MR. MITCHELL: From the standpoint of our Company, gentlemen, I think I can because we originally organized -- I'm talking about our Acceptance Company -- as a non-recourse company and therein lies the fact that we are dealing directly with the people and if we don't deal directly and fairly with them, it falls back on us and if we have a good reputation, which I think we have, I attribute it to that fact. Now because we have gotten larger -- in latter years we have extended out somewhat into the third party deal field and that is the purchasing of what I call commercial papers. And you have a lot of hazards in there which have to be met both to protect yourself and insofar as you can to protect the people that you are financing for, in other words, the buyer. We have always made it the policy in our Company to give full disclosure for people and our contracts are so drawn and the information on our contracts is so laid out that the actual financial transaction is very, very clear to them. It's in 10-point box type. Now one of the reasons it's in 10-point box type is because there is legislation in Alberta which calls for it. We thought that was so good we put it right across the country. Just recently Manitoba has enacted an Act and they have stipulated in that Act that certain portions of the contract must be in 10-point block type. And I think it is good.

But I don't think I have any specific recommendations how to solve some of the problems that

you are talking about. At least I haven't found or devised any ways to do this.

MR. LAWRENCE: Thank you very much.

THE CHAIRMAN: Mr. Bukator? Mr. MacDonald?

MR. MacDONALD: Mr. Chairman, as I understand what you have said, there is a contradiction and I would like to explore it. You say that you discuss, your wording was that every transaction is checked out with the customer. How do you do that? Why do you object so strongly to you accepting an obligation that, in effect, financially you have taken over? -- from the original vendor?

MR. EDGAR: Well, frankly, on that point, as I say, we were not in on the deal at the actual time of sale, we do not have anything to do with the dollar value, the automobile that was involved. We haven't seen the automobile in many cases. Sometimes we do. Therefore we have no actual knowledge of the value of the car. This is the customer's responsibility. And I don't therefore see how we should become liable or responsible for the full transaction. It's the dealer's responsibility in that case.

MR. WHITE: May I comment on that? An equipment company I used to own in London has dealings with Union Acceptance and I must say our experience with your firm is excellent. These people operate a little differently from some other acceptance firms in that they go through the purchasor and they sign up the deal from the vendor. Whereas our experience

with I.A.C. -- it may be a different application but -- our dealings were with I.A.C. on behalf of ourselves and on behalf of our customers. But these firms couldn't guarantee the worth of the merchandize, -- there are hundreds, I suppose, thousands of different kinds of items purchased on paper like this. It's a lifetime specialty really to learn how to handle all of them.

MR. MacDONALD: Your problem then is how legally to cope with the situations that accompany high-pressure selling. A Company sells a product and then gets out from under its obligations and the counter offensive which they really should expect and should be directed at them is an Acceptance Company.

MR. EDGAR: Well, isn't that the same problem as a retail store selling a piece of merchandize. Once it sells it and has received the cash for it, it's really out of its obligation. Unless it gives side guarantees.

MR. LAWRENCE: It's not the same problem, no. For instance, in the C.L.C. brief to us, they gave the example -- they overworked it because they used it so often -- they gave the example of one person who contracted to buy storms and screens, signed the paper stupidly before having work done, granted, but anyway they put up one storm, one storm window. Meantime the salesman had gone back to the Company, the Company had discounted it or sold it to a finance company, they never came to finish the work and yet the man was liable to the finance company for the whole

works, for the whole amount of the contract.

MR. EDGAR: It's very difficult to control something like that.

MR. LAWRENCE: But surely the finance company, in the first instance, is willing to buy that, surely it is their duty to make sure that the work has been done. I mean -- I've got examples right here in my briefcase of similar things happening in the used car business.

MR. EDGAR: Even where you make the effort to establish that the work has been done, quite often the customer doesn't always tell you the truth when you do find out, when you do make enquiries. Therefore I still think it is the customer's responsibility to see what the merchandise he is buying is of good value and it's up to him to look after his own interest in that.

MR. LAWRENCE: Well, that is true, but again most of our legislation is dealing with 5% of the population that doesn't have the opportunity or the ability to protect their own interests. We wouldn't be here today if there wasn't these protections.

MR. MacDONALD: Our murder laws aren't directed to the whole of society, it's a fairly small proportion.

MR. EDGAR: A small proportion of it, I know. I have no way of trying to tell you how to correct that.

MR. WHITE: It's impossible to ask a man's firm to guarantee merchandize -- (rest of

sentence inaudible) -- it's impossible.

MR. EDGAR: Thank you, Mr. White, I think we are in agreement on that.

MR. WHITE: What do you think about the one suggestion about licensing vendors?

MR. EDGAR: Well, I think that is an excellent suggestion and I also thought the other suggestion of Mr. Wood on the abuses in the second mortgage field, of getting rid of balloon payments and amortizing them over the life of the contract, are both very, very good suggestions.

MR. WHITE: Is there any jurisdiction now that licenses all lenders, as has been suggested?

MR. EDGAR: In other fields other than the finance business?

MR. WHITE: Is this rule in effect in other jurisdictions?

MR. EDGAR: Not to my knowledge, no. It could be, but not to my knowledge.

MR. WHITE: Does any State or Province require that these loans be amortized over the term of the loan?

MR. EDGAR: Would you answer that, Mr. Mitchell, I don't know of any that regulate the --

MR. MITCHELL: As far as Canada is concerned, I do not think there is any regulation on it.

MR. WHITE: Would that be enough to lending and borrowing practices and procedures if the obligation had to be amortized over the term?

MR. MITCHELL: In other words if it had

to be on equal monthly instalments?

MR. EDGAR: No, amortized over the term whether it's on equal monthly instalments or not. I think it would be an impediment if they try to regulate it on equal monthly instalments. I'm not suggesting that. I don't think it would be any impediment if it were amortized over the term because, as the one brief said, that they rebate on the 78ths system and as long as you are rebating on the 78ths system the customer is just being charged for the amount of money for the term and time that he has it.

MR. WHITE: Right now you buy some papers which have a balloon at the end, I suppose?

MR. EDGAR: We buy very, very little paper that way, but we concede that we could in our acceptance business.

MR. WHITE: But if there were a rule in Ontario that there couldn't be a loan with a balloon at the end, would it affect your business?

MR. MITCHELL: Yes, it would.

MR. WHITE: Do you think it would be a serious disadvantage to your business? That's what I wondered.

MR. MITCHELL: From my experience, I don't think that is our problem. In the purchase of what we call -- I think you have to differentiate here -- because there are vast differences in dollar periods that we are dealing in -- I feel that people who buy automobiles, household goods and things like that, I call those normal consumer purchases.

MR. WHITE: Normal what?

MR. MITCHELL: Consumer purchases. In other words, they are private purchases. Is not that the area that you are trying to protect? I think we should be careful lest we don't put something in that is going to hinder business, because there is a tremendous amount of equipment purchased on all types of varying basis, depending on the particular business or industry involved.

MR. EDGAR: And the needs of the buyer.

MR. MITCHELL: In your considerations perhaps it should be more to get down to the area of the individual and the businessman should be made to protect himself, otherwise he should lose.

MR. MacDONALD: Mr. Mitchell, I think, has put his finger on it. I recall I was rather impressed by the testimony of one second mortgage company that in a new structure, for example, new construction, you may, in the first instance, because of the risks involved, have higher payments. You don't want to pay the whole thing off in five years because your costs are too high because of the greater risk. But at the end of five years it is a going concern, you want to take your balloon and refinance it at a lower rate. But I think the point here is that this is a business transaction as opposed to an individual consumer loan and if legally you can separate one from the other you might avoid part of the problem.

MR. SEDGWICK: It would be so hard to do -- (rest of statement inaudible) How to separate a

man who wants to buy a refrigerator, separate legally?

MR. LAWRENCE: This is one of the most tragic situations in which a borrower find himself where he's got a second mortgage for two or three or five years at a relatively high rate of interest, where a bonus is built in in some cases. He gets to the end of the term to find he has reduced this obligation very little. Once again, in a hurry, he has to borrow more money that contains another bonus. The two large finance firms that are going into the second mortgage business are amortizing it over the term. (Next sentence inaudible). Are you in the second mortgage business?

MR. EDGAR: We have a realty licence, but we have never used it.

THE CHAIRMAN: I think we should wait to discuss the amortization of second mortgages again until we have the real estate and mortgage people back before us.

MR. IRWIN: (Inaudible)

MR. EDGAR: Not in those two particular instances, no, but I also agree with Mr. Wood, who, I think, said that there were some 700-odd calculations. If you tried to bring it right down to the last penny, from a legal aspect, when you are completing a document, and it's a legal document, I don't believe you can have conflict between the dollar amount which will be shown on your document and the interest return. I think that they must be actually correct. I don't think that you can have leeway in it.

MR. IRWIN: (Inaudible).

MR. EDGAR: Well, if you were to accept those tolerances -- again I have to agree with Mr. Wood on this point -- and that is, of all the customers -- and I haven't dealt with nearly as many as he has -- that I have ever talked to, any time that I have told them the true rate of interest, their question has always been, "How many dollars?" They have never really been terribly interested because I think you are dealing with a class of people who, unless you are sufficiently educated you cannot relate one to the other and you could tell them 18% or 25% and that wouldn't mean anything to them. They have to be able to interrelate the interest rate with the dollar amount to have it effectual. And from my point of view I would say that the dollar disclosure is by far the more important. If this Committee decides or the Legislature decides that they wish to do it, I would say that we would still be faced with the problem of putting it in the dollar amount. They want to know the dollar amount. It's vastly more important to the average customer.

MR. IRWIN: I have had no experience on your last comment as to whether people would appreciate it, I don't know. That's another area for discovery. I have been rather disturbed with the suggestion that it is so complicated that it can't be done.

MR. EDGAR: Anything can be done, but it would be difficult. It is also an operational problem in which you are going to have to have these charts in all branches and your document, again, is legal and if a girl makes a mistake in typing or uses

the wrong interest rate, why you have a legal problem. You appear before the Judge and the Judge isn't going to make any allowance for the fact that the girl made an error in computation or in picking it off the charts. You would have your troubles. From an operational point of view, I would rather have to do one only and I think the one that is the most important to the customer is the dollar amount involved.

MR. IRWIN: I wanted to put forward a suggestion in regard to the problem that Mr. MacDonald has been concerned with and Mr. Lawrence too. Would it be, for instance in the mortgage field, it's customary to make advances on the mortgage while the work is in progress and the actual mortgage is not completed until the work is satisfactory and is done. In the cases where you are taking paper based on a contract on the part of the vendor for work or material to the purchasor, would that be possible? Would that kind of order be possible? In other words, you don't accept it until you satisfy yourself as to the state of progress of the work.

MR. EDGAR: Well, shall I say that we do not do any of that kind of thing. We have had experience with that class of paper and we didn't find it to our liking, so we withdrew from the field. I think it would be better to ask somebody who would get into that class of paper rather than ask us, because we know very, very little about the home improvement field and that is what I think you are referring to, home improvement loans.

MR. IRWIN: Is it a practice that's a preferred practice?

MR. MITCHELL: Our experience is -- we dabbled at it once -- it's almost impossible to control and here again I don't think it's the finance company's responsibility if people, purchasers, people who want improvements made and they contract for somebody to do it, it isn't the finance company's responsibility to see that it's done, it's their own. In other words they should go to reputable people and I think this is an educational programme.

MR. WHITE: Well, if the amount of the charge is a stated amount I suppose that would eliminate this particular problem.

MR. MacDONALD: I was rather interested in the current issue of -- the November 23rd issue of the Financial Post, reading that the Catholic syndicates in Quebec are now going on a TV programme throughout the whole Province to help to educate people on credit problems. A significant comment here on the question of door-to-door salesmen is that a person pays two to five times the true value of the merchandize. Once a contract is signed, it is impossible to break. Often the same merchandize demonstrated is not delivered and sometimes nothing at all is delivered. "If you let a salesman in the door almost without fail you will give in to him. If you do you certainly will be exploited." Now you may say people are weak, they are silly, it's their function to protect themselves. But I don't think this is an accurate statement of the fact

that in nine people out of ten, if a salesman gets in the door they are going to be sold because you've got an innocent amateur coping with a slick professional. And I have a case, when I get some more details of it, that I want to bring to this Committee because I think it's a Company whose practices it might be worth it for us to look into. But the simple business is that you are going to be sold. Nine people out of ten, not a small proportion, nine people out of ten are going to be sold.

MR. WHITE: Oh now, let's not --

MR. EDGAR: No, I couldn't subscribe to that, Mr. MacDonald. I couldn't tell you how many, but it's a merchandizing problem, really, it isn't a financing problem.

MR. MacDONALD: I grant you it's a merchandizing problem but what I am saying is -- you say if you got your fingers burned you are going to get out of it, I can quite understand it -- but I don't think we can just sort of simply say we have solved the problem by saying human beings have got to smarten up because the competition out in the field is an unfair competition. It's the amateur, sometimes with limited education, dealing with a slick operator who in many instances deliberately tries to put over a deal. And then the company operating for him immediately discounts it and walks out of their obligations.

MR. LAWRENCE: I think it applies to the used car business too.

MR. MITCHELL: The used car business,

yes. It's very difficult to control.

MR. WHITE: It's seldom that the paper doesn't eliminate any obligation that the vendor may have?

MR. LAWRENCE:: If the vendor is still in existence, yes, this is quite true. The purchaser can always go back to the vendor. But so often, especially in the used car business where you get these outfits -- I mean, they change every week. Within a mile of here there are four corners I can show you where there is a different name of the used car lot every week. They are there one week and they are not there the next week. The same principals may be running it, but you can't nail them, of course.

MR. MacDONALD: The company I just referred to that I want to get details on, has got a different name in the telephone directory than they are now using, same group of people.

MR. MITCHELL: It's the same in the vacuum cleaner field.

MR. WHITE: Is this not a different problem, though?

MR. MITCHELL: The cost of the consumer loan?

MR. MacDONALD: Yes.

MR. SEDGWICK: We are moving into the area of fraud.

MR. EDGAR: Yes, I think you are moving into another area, the retailing.

MR. LAWRENCE: I think it pertains

very directly to the cost of consumer loans, because if the ultimate collector on that paper, in other words, the finance company, was made responsible for the worth of the goods or the validity of the contract in the first place, obviously this is going to effect the cost of consumer credit in that field. So that certainly, I think it comes directly within the view of this Committee. We are here to clean up some of these abuses.

MR. MacDONALD: You are attributing sophistication to a lot of people whom you are not going to get in this lifetime, nor their children or grandchildren. When (  ) is suddenly accosted by a slick operator like this he's going to be licked. He's normally dealing with people on the basis of confidence and faith. This is going to cost $1,895.00, "Good, I want to get my house fixed". So he accepts the $1,895.00 and he finds he is stuck for $3,000.00.

MR. WHITE: I think the point might be made that the reputable firms in the acceptance business will only deal with a dealer as long as they think he has integrity. Am I right on that Mr. Edgar?

MR. MITCHELL: Yes, that is what all financial organizations try to do. We don't want to deal with people where we are going to get into trouble because they create such headaches that life isn't worth living. This is our philosophy, at least.

MR. MacDONALD: This is the difference between you and the people we have got to come to grips with. You say life isn't worth living. This is the

way they want to live life. This is the way they operate.

MR. MITCHELL: They don't in our particular company.

MR. MacDONALD: Not necessarily you, but the retailer. This is the way he operates. He operates on the basis that he is going to skim the market here, then change his name and skim the market elsewhere. And if he can use you in the process, this is our problem. How do we legally make it impossible for him to use you in the process?

MR. MITCHELL: Can't you fellows restrict or withdraw credit from that type of merchandize?

MR. MITCHELL: Yes, we can and we try to.

MR. WHITE: But now this example of Mr. MacDonalds, I think it was Premier Finance, they are buying paper from that firm. I don't know if the firm is good or bad, but I presume the salesman was a little --

MR. MITCHELL: I think the trouble in that lies in this, that could be a good class of business for an installer, a good deal for the purchaser, but the unfortunate part of it is the salesman.

MR. MacDONALD: Whose name has been rubbed out of the contract.

MR. MITCHELL: He is the fraud. Actually, a financial institution who goes into that type of deal has to go and physically see that the work

is completed to the customer's satisfaction, before they would be safe buying that type of paper.

MR. EDGAR: And then, Mr. Mitchell, besides that you have to have such a vast knowledge of every line of business that went on to be able to judge whether the value is there. I don't see how it possibly could be our responsibility.

MR. LAWRENCE: Well you do -- your acceptance company does accept its paper with no check at all in some of these cases. It not only applies to that type of business. It appies to furniture and appliances --

MR. EDGAR: The qualification is the type of dealer with whom you do business. Their reputation and the integrity and their experience.

MR. LAWRENCE: But how do we get to the many operators in your own field because obviously people like yourself in the industry -- while you have these high standards for youself -- you are not willing to do anything within the industry itself to make sure that your standards go right across the board.

MR. EDGAR: Well, I think we do try to do something for the industry itself by establishing our own standards and staying with certain classes of business ourselves. We can't tell other companies what to do. All we can do it run our own business and run it as ethically and as properly as we see it.

MR. LAWRENCE: Let me suggest to you though that if there isn't some sort of industry policing on these things then unfortunately we get

government controls and committees set up which undoubtedly are going to result in government legislation. If the industry itself would try some sort of policing, and they certainly need it. It would be to your own advantage, if you would do that. There would be no need for government intervention.

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: One of the things I was interested in, Mr. Chairman. I wonder if the members before us would want to give us the details of this Lender's Exchange and how it functions?

MR. EDGAR: Mr. Mitchell, would you like to -- I think that was covered in one of the briefs quite thoroughly.

MR. REILLY: Not the details of it. The members of the C.C.L.A. -- this was a function as part of their fee, I suppose, -- covered the service, but no details of the service that was provided on the basis of creditworthiness.

MR. MITCHELL: Do you know exactly how the lender's fee --

MR. EDGAR: This is where Mr. Marks would have been very handy. He knew exactly how they operate.

MR. MITCHELL: I have limited knowledge of it. I have studied it. I have read the by-laws but it's several years since I have read them. The basis of the Lender's Exchange is to prevent people from getting a loan from a number of different companies --

MR. MacDONALD: May I butt in, Mr.

Chairman? The gentleman is making some very good points and he is not close enough to that mike. I don't think the boys behind here are hearing his comments.

MR. MITCHELL: Would you like the mike swung around a little bit?

MR. WHITE: If you could speak a little louder.

MR. MITCHELL: I can speak a little louder.

MR. WHITE: Are you adjusting the -- it begins to sing if it is too high.

MR. MITCHELL: The puspose of the Exchange, gentlemen, is to provide a means to all members in the lending fraternity who are members of the Association, to be able to find out what current obligations any individual customer has with other members of the Exchange so that there can not be a piling up of obligations beyond that person's apparent ability to pay. If one Company makes a loan today, that is recorded with the Exchange. If that customer goes to another company tomorrow or in a week and wants to borrow money, they find out. Now there are limits on the piling up of these loans and this is where I don't want to -- what I am going to say may or may not be correct and I would sooner not give those limits. But I believe that in essence no party can have more than 2½ loans. Now how you define 2½ loans I would have to read the by-laws. But the purpose of it is to keep people from getting over-extended

among the various loaning organizations. If you want to loan money at a certain stage, you have to take over all of the obligations of the other.

MR. WHITE: Of the various --

MR. MITCHELL: No, of the Exchange.

MR. REILLY: Are the banks members?

MR. MITCHELL: The banks are not -- the Exchange, I believe, are only members of the small loans organizations.

MR. REILLY: If the limit has been reached and you want to give another loan, you take up the obligations of all the other outstanding loans of the other lenders?

MR. MITCHELL: Right. Otherwise you are in conflict with your Lender's Exchange. Otherwise you can't grant the loan.

MR. REILLY: This is a protection --

MR. MITCHELL: Yes, a protection. I would recommend, gentlemen, if you can you get someone who is operating within the Exchange to give you the details of it because it is a very fine thing.

MR. REILLY: We will get more of the details, thank you. The other item in which I was interested was, do you do most of your business direct with agencies rather than with an individual?

MR. EDGAR: No, we do most of our business directly with the individual.

MR. REILLY: So that if I purchased a car I would do business direct with you?

MR. EDGAR: Most of our business is done

that way. But it would be your responsibility to appraise the value of that car.

MR. REILLY: 35 is the average repossessions monthly. What would be the average number of sales?

MR. MITCHELL: We have 22,000 customers.

MR. REILLY: This 22,000 is over a year?

MR. MITCHELL: That's right.

MR. REILLY: So consequently it might be 35 out of 11,000 or out of 1100 or something like that?

MR. MITCHELL: Well, we have 22,000 customers and we are averaging approximately 35 repossessions a month, at the moment, so we might have 350 repossessions in a year. When I say repossessions I think it's a badly abused term in the finance industry. They are more give-backs than they are repossessions. They are customers who have decided that they don't want it and they don't intend to pay for it, so they just say to you, "I don't intend to pay so take your car back".

MR. REILLY: But most of your business is done with the individual?

MR. MITCHELL: With the individual.

MR. REILLY: Thank you, Mr. Chairman.

MR. LAWRENCE: Mr. Chairman, I would like to bring up the question of rebates. What do you think of this rule of the sum of the digits or the

rule of 78ths?

MR. EDGAR: Well, in our small loan business and our finance company business we operate on a monthly charge. There is no rebate. We don't charge the customer if he wishes to pay it out, we just collect the interest to date and the balance to date, and the account is liquidated. The 78ths system we use in our acceptance business.

THE CHAIRMAN: Are there no further questions?

Thank you, Mr. Edgar and Mr. Mitchell.

---LUNCHEON ADJOURNMENT.

---ON RESUMING AT 2:00 P.M., DECEMBER 3, 1963.

THE CHAIRMAN: This afternoon we have with us Mr. J. B. Pennefather, President of Industrial Acceptance Corporation Limited. Together with Mr. Pennefather we have Mr. Murray Nickel, Vice-President and General Manager -- would you just stand as I read your names out, Mr. Nickel? And Mr. P. J. Brown, Assistant Secretary and General Counsel, and Mr. K. G. Inch, Manager of Marketing Research Statistics. We all have a copy of the Industrial Acceptance Corporation brief and would ask you now to proceed with the reading of your brief.

MR. PENNEFATHER: Thank you, Mr. Chairman. Mr. Chairman and gentlemen, the brief starts with the paragraph headed Introduction.

"Industrial Acceptance Corporation Limited commenced business in Canada in 1923 as a branch office of a U.S. company. The branch was converted into a federally incorporated company on February 7th, 1925 and was then a wholly-owned subsidiary of the U.S. parent. In June of 1930, Canadian investors purchased this subsidiary and it became wholly Canadian owned and managed. Later, the stock was listed on Montreal, Toronto and Vancouver exchanges and although some shares have been purchased from time to time on the open market by other than Canadian investors, the latest count (Sept. 1963) showed that out of nearly 11,000 common shareholders, 92% were Canadians and they owned 82% of the number of common shares outstanding. With the exception of one person, the entire board of

directors and all of the senior management are Canadian citizens, residing in Canada.

"The corporation as a whole now employs about 3,000 people in Canada and has nearly 500 outlets for its various services throughout the 10 Provinces and Yukon Territory. In Ontario, employees of all categories total 900 and there are 157 branches or outlets for the services of the various components of the company. One copy of the latest Annual Report has been filed with the Secretary as Appendix 1 for the further information of the Commission. More copies are available if needed.

11. CONSUMER CREDIT

"The corporation is a grantor of credit in the consumer field in two principal areas. It is represented in the personal loan field through a wholly-owned subsidiary, Niagara Finance Company Limited which is a member of the Canadian Consumer Loan Association. As this company has prepared a brief in respect of its own operations, this area will not be dealt with at length herein. The operations of the parent company, Industrial Acceptance Corporation Limited, (a founding member of the Federated Council of Sales Finance Companies) are principally in the field of financing the sales of durables at both wholesale and retail levels and, in the latter case, sales to both individual and business or commercial purchasers are financed. As this Committee is understood to be primarily interested in the field of retail consumer credit, this brief, in the main, will deal with the operations of the company in that context.

"Before describing such operations of the company, it may be helpful to have readily available, a statistical summary of the various components of consumer credit. Accordingly, the chart attached as Appendix II has been developed from the Bank of Canada's Statistical Summary and it will be noted that the figures are as at June 30th, 1963."

Mr. Chairman, at this point I would suggest that if the Committee members wish, they might turn to Appendix II while I read the next few sentences which are explanatory of that Table attached.

"Because some of the components of the total are not available each month, it was necessary to take this date in order to eliminate as many estimates as possible. The Committee will note that as of that date, the sales finance industry as a whole accounted for 15.6% of the toal or approximately $835 million. It will also be observed that the chart is divided to show to the left, the principal sources of credit arising out of the sale and purchase of goods on the one hand and, to the right, out of the actual borrowing of money on the other. These divisions or concepts of consumer credit will be examined next as it is essential to appreciate the differences between them if a clear understanding is to be achieved of the way in which such credit services are made available to the consumer."

Now, if I may ask you to come back to the text with me again.

"Dealing with the larger sector first, it will be observed that loan credit accounts for 64.6%

# CONSUMER CREDIT OUTSTANDING IN CANADA JUNE 30, 1963

## PURCHASE CREDIT

| INSTALMENT CREDIT | MILLIONS OF DOLLARS | % OF TOTAL CONSUMER CREDIT |
|---|---|---|
| Sales Finance Companies | 835 | 15.6 |
| *Department Stores | 307 | 5.7 |
| Other Retail Dealers | 254 | 4.8 |
| Small Loan Companies | 45 | .8 |
| | 1441 | 26.9 |
| **SINGLE PAYMENT CREDIT** | | |
| Department Stores | 80 | 1.5 |
| Other Retail Dealers | 325 | 6.1 |
| Oil Co. Credit Cards | 50 | .9 |
| | 455 | 8.5 |
| **TOTAL PURCHASE CREDIT** | **1896** | **35.4** |

*Division of Department Store receivables between instalment and single payment credit estimated.

## LOAN CREDIT

| INSTALMENT CREDIT | MILLIONS OF DOLLARS | % OF TOTAL CONSUMER CREDIT |
|---|---|---|
| Small Loan Companies | 689 | 12.8 |
| Credit Unions (Estimated) | 605 | 11.3 |
| Chartered Banks – Home Improvements | 70 | 1.3 |
| Chartered Banks – Other Personal Loans | 1330 | 24.8 |
| | 2694 | 50.2 |
| **SINGLE PAYMENT CREDIT** | | |
| Chartered Banks – Secured Personal Loans | 370 | 6.9 |
| Quebec Savings Banks Loans | 23 | .4 |
| Life Insurance Company Policy Loans | 380 | 7.1 |
| | 773 | 14.4 |
| **TOTAL LOAN CREDIT** | **3467** | **64.6** |
| **TOTAL PURCHASE CREDIT** | **1896** | **35.4** |
| **TOTAL CONSUMER CREDIT** | **5363** | **100.0** |

*SOURCE: Bank of Canada Statistical Summary.*

of the total. To obtain loan credit, the borrower makes application to the lender and, if successful, obtains cash with which he discharges the purposes for which he wanted the money. These could include the re-financing of already existing short term obligations, payment of unexpected expenses which, by means of an instalment loan, are spread out in such a way as to be handled within the borrower's normal monthly budget, and so on. There is often a remedial element involved which, to varying degrees, may force the decision to borrow. Also, of course, some people borrow for the express purpose of making an apparently cash purchase of merchandise, under the impression that they are thus able to drive a better bargain with the merchant. However, it is essential to note that characteristically the lender interviews the prospective borrower in the office of the lender and that the personal credit of the borrower in a broad sense is necessarily involved in obtaining the money applied for.

"Purchase credit, on the other hand, is, as the name implies, granted by the vendor of the good purchased in his place of business and at the time of purchase by the consumer. (The small proportion of purchase credit granted by small loan companies is understood to represent mostly the financing of instalment sales between individuals). Thus, this form of credit is a function of and arises out of the selling of goods and is neither actually nor theoretically a loan of money. It is submitted that when people use charge account facilities for day-to-day purchases at

department stores, for example, they do not consider that they have in any way borrowed money from the store, nor does the user of an oil company credit card consider that he has borrowed money from the service station or from the oil company whose products are sold therein, when his gas tank is filled and the purchase is recorded by means of a credit card. Where durables are sold conditionally on some form of credit plan, the credit rests to an important degree upon the goods themselves. Note too, that the credit arises out of a voluntary decision to purchase and that the useful life of the asset exceeds the duration of the debt. Thus, as time elapses, the balance sheet position of the purchaser improves as the balance owing decreases.

III FUNCTIONS OF THE SALES FINANCE COMPANY

"Having discussed an outline of the field of consumer credit, the attention of the Committee is re-directed to the total accounted for by sales finance companies and to the role of IAC in that area. But first a little background to provide some perspective.

"Committee members will recognize that a key element in the development of our more successful retail merchants, has been their ability to provide to the public, the various services which have contributed to the growth of store patronage. These services include the various credit plans which have become such familiar features of retail trade today. It is important to recognize that these plans evolved solely to help sell goods and not as a means of granting

credit. The latter is only incidental to the former.

"As the volume and complexities of credit selling increased some retailers and some manufacturers formed their own sales finance companies. These are known as 'captive companies' in the trade. However, to serve the large number of manufacturers, distributors and/or retailers who do not have, or may not choose to commit, the capital resources and/or technical skills to safely handle their own credit sales, 'independent'sales finance companies also came into being. IAC is such an independent with no associations or affiliations other than in the ordinary course of business.

"There are 179 sales finance companies reporting to the Dominion Bureau of Statistics - both captive and independent according to the latest information available. In each area there are both foreign and domestically controlled companies and IAC competes with them all for the patronage of reputable merchants large or small, selling to consumers, anywhere in Canada. In Ontario IAC has 54 branches and 491 people in the sales finance field. Its sixty senior personnel in the Province have an average of over 13 years experience with the company.

"To get business, IAC must send a competent, highly trained representative to call upon a merchant. All aspects of the services offered are compared by the merchant to the services offered by competing sales finance companies. Such services include facilities for financing the merchants' purchases of

goods at wholesale from the manufacturers he represents, the cost of such facilities, the availability or otherwise of local branch office service, methods of handling retail instalment sales, costs thereof, credit checking facilities, experience and calibre of personnel, stability, resources and reputation of the sales finance company, etc.

"When a merchant decides to use IAC facilities, the IAC branch manager will first discuss with him the amount of financing at the wholesale level which is likely to be required for inventory or floor plan purposes. Having established that, an estimate of retail instalment sales is developed. From these data, the IAC manager will forward to his Superintendent a recommendation for the establishment of credit lines which will serve as guides against which to control the amount of receivables which will later develop. The manager supports his recommendations with financial statements, trade and other reports to establish that the credit sought is reasonable and the merchant reputable to the best of his knowledge and judgment.

"When the lines of credit are approved, the merchant will instruct the manufacturer whose products he sells, to ship goods against his signed orders through IAC facilities. IAC has specialized services for paying the manufacturer against presentation of relevant documents, which are then cleared to the IAC branch nearest to the merchant concerned. In effect, IAC takes over the manufacturers' interest in and title to the goods and the merchant settles with IAC as they

are sold at retail.

"Varying proportions of the merchants' retail sales will be for cash. As previously noted, some unknown portion of 'cash' sales are made to purchasers who have arranged or will later arrange to borrow the money needed from one or other of the many lenders in the field. Other consumers who wish to pay for their purchase out of income, will use the convenient purchase credit facilities offered by the merchant. If a customer is well known to the merchant, a transaction can be and usually is completed then and there, by the merchant or his salesman without prior reference to the sales finance company. However, when a customer has no previous record with the merchant, the latter can avail himself of IAC's facilities to check his prospective customer and approve his credit or otherwise.

"Assuming that in the example being given here the merchant completes an instalment sale, he can then offer the resulting conditional sale contract to IAC for purchase. (Note that he can also decide to carry the receivable himself, sell it elsewhere or borrow against it from his bank). If IAC has not already checked the credit of the buyer, or has no previous record of him, it would first make a thorough credit investigation based upon the answers given to questions in the application for credit made by the purchaser. IAC will also wish to be satisfied that the unpaid balance of the purchase price will represent a reasonably safe relationship to the market value of the goods during the term of the contract. If the contract is

purchased, a cheque is sent to the merchant for the proceeds and his customer is informed that IAC has bought the contract. IAC confirms to the customer (who already had received a copy of the contract from the vendor) the principal details of the deal, provides a form of coupon to accompany monthly payments and gives the address of the IAC office where payments are to be made. IAC reports monthly to the vendor on the status of the account and, in the event of delinquency, acts carefully to work out the problem satisfactorily and to keep the goods sold.

IV - COST FACTORS

"The foregoing is an outline of IAC's functions in the granting of consumer credit. It would seem appropriate now to discuss the cost factors which will necessarily be dealt with in two distinct areas. The first will be the factors governing charges made by IAC when purchasing paper from the merchant and the second, a similar discussion of typical charges made by the merchant to his customer, the consumer. The Committee should bear in mind that the consumer is the merchants' customer and that IAC's role is to serve as a recipient of the consumer's payments - in the ordinary course of events, IAC has no other dealings directly with the consumer.

"The scale of charges made by IAC for the purchase of instalment paper is governed on the down side or has a floor provided by the basic cost of raw material - money - plus the greater cost of the services involved, the risks incurred and a profit

factor. These services must be administered through branch offices for which rent is paid, staffed by high calibre, well trained, experienced men and women and backed up by a necessarily complex internal system and adequate service divisions. On the high side, there is a most effective cap provided by the very extensive competition within the industry which has already been described. There is also external competition in that there are other avenues of finance open to the reputable merchant.

"In addition, competition at the consumer level puts a very firm cap on the price the merchant can afford to pay for the 'wholesale' cost at which he buys the credit service he makes available to his customer. A discussion of the latter area follows.

"One of the accepted basics in successful retailing is the necessity to fully service the customer, once he enters the store. Our large department stores are prime examples and, as already mentioned, credit is one of the most important services they supply and is a major element in successful customer control. The same principle applies equally to the smaller merchant who must offer credit services at price levels competitive with those who have their own facilities available. This competitive pressure applies as obviously to goods sold on some form of purchase credit plan as to goods sold for cash. It follows too, that to the same extent as the merchant sets his own cash price, based on his cost plus whatever markup he feels his market will permit, he also sets

his own time price. The manufacturer can and often does recommend a retail list price but does not set it. In somewhat similar fashion, IAC as a wholesaler of credit services, suggests to the merchant prices at which he can retail his credit facilities. These suggested prices are derived from a consensus of views of many merchants in many localities. However, the merchant, in the final analysis, decided to retail at his cost or at a higher or lower level, according to his own merchandising plans and philosophy.

"The attention of the Committee is again drawn to the very strong pressure exerted by competition to the benefit of the consumer. Price competition is clearly evident for cash sales which makes customer control a vital factor. Credit is clearly an important element here, so the merchant must offer a purchase credit plan at a cost attractive to his customer who can shop among so many aggressive vendors of loan or purchase credit. In brief, the retail market for goods is highly competitive, on either a cash or a credit basis.

"There is attached as Appendix III, a summary of the rates most commonly used by IAC in purchasing paper from merchants. This summary also shows the rates most commonly used by merchants at the retail level.

"It should be understood that the consumer who purchases on a credit plan not priced at the lowest level, does not necessarily get a poorer deal over-all. Sometimes a retailer prefers a higher

cash or credit price structure so that a higher trade in allowance can be quoted. The net effect is not likely to differ much from what a competitor might have offered who was working on a lower mark up but offered less for a trade in. Here again, competition is a very effective control.

"As a final observation on the sales finance company cost structure, the Committee is reminded that the large 'captive' companies provide a useful reference point. They are set up by their owners for the principal purpose of aiding in the distribution and sale of the goods manufactured and/or sold by these owners. Therefore, it would be reasonable to assume that their cost structure would be at the lowest possible level. They do not, for example, have to advertise or sell as aggressively as an independent, they do not have to answer to outside shareholders as an independent public company does and so on. Despite these factors, IAC's cost structure is, over-all, fully competitive.

"Finally, a freely competitive market is the best device yet invented for the establishment of a fair price for anything saleable - whether goods or services. The foregoing paragraphs of this section recite briefly how the market mechanisms and pressures bear upon the prices at which services are sold by a sales finance company to merchants and by them to consumers. The following section will deal with the methods of disclosing such costs to the consumer.

V - DISCLOSURE OF CREDIT COSTS TO CONSUMERS

"The Committee is first reminded that

as a sales finance company IAC is not a party to nor is it present when an instalment sale takes place. The consumer has made his purchase and the merchant has arranged mutually satisfactory credit terms before the resulting conditional sale contract is offered for sale to IAC.

"Therefore, it follows that the vendor must make whatever disclosure is wanted by the public and views of retailers would, therefore, be more pertinent and should be fully canvassed. However, IAC submits the following in the hope that it may be helpful to the Committee. The subject will be developed in three parts - A, dealing with disclosure in dollars and cents; B, disclosure by converting dollar cost into an equivalent rate of interest per annum and finally, conclusions in part C.

(A) Dollar Disclosure

(1) As an integral part of the service it sells, IAC, like most sales finance companies, provides to its customers (the retail merchants) conditional sale contract forms, a sample of which is attached as Appendix IV. There is incorporated therein a table to show in logical progression, the arithmetic used to arrive at the deferred balance due, including the amount charged for the credit granted. This part of the IAC contract form (and presumably of other companies as well) has been a standard feature for as far back as any record can be found - for at least 30 years. The point is that this method of disclosure arose naturally and was standard practice decades before there was any public

discussion of the matter. The practice is now usually described as 'dollar disclosure'.

(2) The dollar disclosure practice evolved logically and naturally because purchase credit is a service element in the selling of goods. It forms part of the merchant's general overhead whether he makes a specific charge for it or not. For example, the ordinary 30 day charge account service certainly costs the merchant something to provide, but usually no specific charge is made. The cost is simply general overhead of the store and must be reflected in the cash selling price of the goods. The same applies to oil company credit cards - gasoline, oil, etc. are sold to card holders at the same price as to the cash customer.

(3) However, if the 30 day charge is converted into one of the longer term instalment payments plans there is usually an additional specific charge. This reflects the cost of the additional services plus a greater risk of loss and the slower return of the vendor's investment in the goods for all of which added compensation is properly sought. Note, however, that if the longer instalment terms had been sought at the time of purchase, the same additional charge would have been made and might have been disclosed separately or might have been incorporated into the price of the goods. In any event, the purchase credit service is a function of the selling of goods and forms part of their cost to the consumer. It seems illogical to express part of the cost in dollars and part as a percentage equivalent.

(4) Accordingly, it seems best to IAC that in those areas of retailing where a separate charge for purchase credit is customarily made, such charge should be disclosed to the consumer in dollars and cents.

(B) Disclosure by converting dollar cost into an equivalent rate of interest per annum.

(1) In addition to, or in place of dollar disclosure, there are some who contend that the cost of purchase credit services should be stated as an equivalent per annum interest rate. If the views given in part A are accepted, this concept need not be pursued. However, some further views on the matter may be of general interest.

(2) Perhaps some advocates of equivalent per annum interest rate disclosure feel that all credit granting is in some way a form of lending and that since a rate of interest is the traditional means of measuring the cost of borrowing, that is the method properly useable. If so, the advocates have not realized that retail merchants are not lenders in either a legal or a practical sense - one cannot, for instance, go into a department store and borrow money.

(3) There are others who believe that the disclosure of an equivalent annual interest rate for the cost of purchase credit would enable consumers to better compare costs as between competing credit grantors. This might be so if consumers had now or ever had had access to any market where credit is sold at a per annum rate of interest. The staff of the Committee can readily confirm that none of the sources of consumer instalment

credit - either purchase or loan - follow the practice of quoting their total costs as a true per annum interest rate. Thus, no such comparisons are available nor is there any historical record against which comparisons could be made if the practice were to be enforced now.

(4) Some advance the view that if consumers knew what credit was costing expressed as an equivalent per cent per annum, they would not so readily use purchase or loan credit. In support of this view, proponents often cite cases where a relatively small unpaid balance, deferred over three or four months, results in a service charge of 2 or 3 dollars which they convert into some ridiculously high interest rate. Apparently, it is forgotten that the credit user 'pays dollars not rates', to quote the Attorney General of Manitoba. Also, it must be recognized that there are certain minimum expenses which attach to even the smallest credit transaction which would inevitably produce meaningless interest rate equivalents.

(5) The contention that disclosure of a high interest rate equivalent of a reasonable dollar service charge would be a deterrent, may stem from a vague general idea that any rate of interest, stated at a number higher than 6 is, in some ill-defined way, too high. There is, of course, no economic foundation for such a belief but because of it, merchants would probably be forced to bury most or all of their credit costs in their cash prices if they were forced to show percentages which would lead to unfair and unfounded

adverse public reaction.

(6) To the extent that an equivalent interest rate disclosure would be a deterrent to buying, its advocacy is simply not understood. There is over-capacity in almost all plants producing durables today, so it seems extraordinary that anyone would attempt to deliberately slow down consumption and thereby increase unemployment.

(7) Successful merchants are always highly sensitive to trends in consumer views. It seems reasonable to suppose, therefore, that if there were any genuine groundswell of opinion in favour of the equivalent interest rate disclosure theory, these merchants would have endeavoured to respond to it long ago.

(8) Finally, the Committee is reminded that no one has yet resolved the practical problem of converting a service charge on a multiple instalment credit purchase into an equivalent simple interest rate in a way readily adaptable to the realities of retail selling. Attention is also drawn to studies of the problem by other provinces where this difficulty has come into focus. For example, the following remarks by the Attorney General of Manitoba are taken from Hansard of the Legislature of that Province when it was decided that only dollar disclosure would be required. The amending bill was assented to on May 6, 1963. He said in part -

'If you're told that a contract is going to cost you $20 for the privilege of buying it on time-sale and that the purchase price is $100,

it's really immaterial to you in a sense as to how the vendor computes the rate, because you're not going to be paying him the rate, you're going to be paying him the $20, and it doesn't matter how he tries to manoeuvre or misrepresent $20, $20 remains $20. There's only one way of computing it, that's by adding up the dollars and the cents and coming to that figure'.

(C) CONCLUSIONS

(1) IAC recommends that views of merchants and their associations be thoroughly canvassed before any conclusions are drawn by the Committee.

(2) IAC believes that when the merchant computes a separate charge for some purchase credit plan, that charge should be clearly disclosed in dollars and cents.

(3) That care be taken to avoid any discrimination in legislation which might be recommended. The point here is that regulations could be drawn affecting purchase credit granted by merchants which might not be applicable to lenders such as chartered banks and loan companies. Or, merchants who do disclose charges might be affected while those who do not might be outside the regulations.

(4) That if an interest rate form of disclosure is desired, it be made applicable only to those who lend money. Charges for services in connection with the selling of goods cannot logically be called interest but perhaps service charges made by an instalment lender are closer to what is commonly under-

stood to be interest.

VI SOCIAL ASPECTS

"In the 10 year period from 1953 to 1962 the total of consumer credit outstanding increased 2.4 times. As these statistics are published from time to time, they are usually the subject of a certain amount of 'viewing with alarm' which seems to be based entirely on the fact that the total is growing. A little thought will indicate that it would probably be more sensible to be alarmed if the total were not growing. This could indicate a decline in business.

"Earlier this year, the United Nations released an article in which it was stated that the 10 countries in the world with the highest standards of living, also had the highest relative totals of consumer credit. The article also pointed out that it was ironical that these countries appeared to be worrying about such totals while all the others were concerned about how to feed their people. It went on to suggest that the latter wished that instead they too had a consumer credit 'problem'.

"There is no known measurement to indicate at what point consumer credit may be 'too high' in some sense. Perhaps, therefore, it must be assumed that if the vast majority of individual transactions are sound and are performing well then the total can hardly be a cause for concern. To the extent that IAC's receivables would be an index, it does indeed appear that consumers are meeting their obligations well. Delinquencies, defaults and losses are all at levels

which compare well to averages established over the past 10 years - by historical standards, a period of better than average economic conditions.

"Another aspect of consumer instalment credit which is often overlooked is that it is amortized so quickly. Using IAC's figures as an index, something over 60% of outstanding consumer instalment credit would liquidate in one year from any date and over 85% of it in two years.

"Furthermore, it will be agreed that in a dynamic economy, growth of consumer credit totals would be a normal expectancy. The increase in our population would alone account for some growth and this would be accelerated by a growth in the number of families, particularly those in the 'age of acquisition' - that period of life when durables are being acquired which add to the families' standard of living. Also, in prosperous times, people tend to buy durables at the higher price levels - luxury items - which adds something to the average unit purchase price.

"Therefore, while growth of consumer credit over-all has been substantial, it does not of itself seem to be abnormal or constitute any special threat to the economy. This is not to say, however, that IAC is unaware of any abuses in the field of consumer credit in general or of purchase credit in particular.

"As long as human nature remains what it is and always has been, it is most unlikely that any field of endeavour will be free of abuses of some kind.

This is a fact of life with which both merchants and consumers have to contend - for there are abuses both ways. For example, for every time when a merchant oversells or misrepresents some article to a consumer, the merchant in turn is a victim by way of shoplifting, fraud, skips, bad cheques, etc., by the consumer. Fortunately, most people are honest and abuses are relatively insignificant as a factor in total business or purchase credit volume.

"To lend some substance to this view, reports issued periodically by the Better Business Bureaux of Toronto and Montreal were examined. The Toronto report for the 6 months ended May, 1963, for example, showed that out of 2,681 complaints, only 48 were in the field of Loan and Finance. The Montreal report for all of 1962 showed 9.988 complaints of which only 65 came under the Loan and Finance heading. Relating these cases to the thousands of transactions made, suggests that the consumer is being well served by the merchants extending credit and by the consumer credit industry.

"It is therefore deplored that so many sweeping statements are being made to the effect that - 'the consumer is being taken' - that - 'there is deception on a grand scale' - that the consumer 'must be protected' and so on - ad nauseam! If these statements are sincerely made, then those who make them must believe that the many thousands of merchants all across this country are dishonest opportunists who really should be in jail. This is patently absurd - hardly

more so than to paint the consumer as the gullible fool he would have to be if he were really such an easy victim. After all, our society is not composed of two opposing factions - business on the one side, waiting to prey upon the unwary consumer on the other. Rather, each merge in the warp and woof of our economy - the business man one moment is a consumer the next and vice-versa.

"However, it is in the nature of things that the abuses, particularly where the consumer alleges that he is the victim, are the incidents that come to the attention of social workers and legislators. There is no reason why these groups would ever hear of the vast majority of normal transactions completed to the entire satisfaction of all concerned. It follows that some distorted views and unfair publicity all too often result.

"In the final analysis, the best protection for the consumer is to deal always with a reputable merchant. The latter too can protect himself by carefully investigating, either directly or through his sales finance company or credit bureau, any prospective customer not thoroughly well known to the merchant. Difficulties may arise because these simple precautions are not always observed.

"Consumer purchase credit has proved over the years to be an essential link in the chain of distribution of durables from mass producer to retailer to consumer. Over-all performance of such credit has earned it social acceptability and it is recognized to

be an important element in developing this country's rising standard of living which is rated second in the world today.

VII SUMMARY AND CONCLUSIONS

1. IAC hopes that it has clearly illustrated to the Committee, its functions in the consumer purchase credit field.

2. It is hoped that the basic differences between purchase and loan credit have been illustrated. These being such that this corporation has found it necessary to be represented by completely separate companies in each field.

3. Basic purchase credit cost factors were reviewed and the ceiling imposed by competition have been illustrated.

4. The disclosure question has been examined and it is hoped that the fallacy of an equivalent interest rate as a measure of the cost of purchase credit to the consumer has been established. On the other hand, it was suggested that when a merchant computes a separate charge for a purchase credit plan, that charge should be clearly set out in dollars and cents.

5. It was illustrated that the suggestion just made was logical because the cost of purchase credit is part of the cost of the goods acquired.

6. It is again strongly recommended that the whole subject of purchase credit be most thoroughly examined with representative merchants as well as with their association executives. The merchants are the

primary purchase credit grantors - the sales finance companies, like IAC, are in a secondary position.

7. Social aspects, including the economic benefits of the sound use of purchase credit by consumers were briefly examined. The problems of abuses were also discussed and it is hoped were brought into focus.

8. It is felt that the Committee's interest in consumer loan credit should also result in hearings from representative lenders and that the two forms of consumer credit be dealt with separately to avoid confusion.

9. Finally, IAC is most anxious to be of help to the Committee in any possible way. It has an extensive Statistical Department and the Committee is invited to send representatives to IAC's Executive Offices in Montreal if this would be useful. Sometimes a better view of company functions can be obtained by such a visit than as a result of this kind of submission. If the Committee later decides to recommend legislation in the Consumer Credit field, IAC would be pleased indeed to offer its views.

Respectfully submitted,"

MR. SEDGWICK: I sympathize with the protest you make on page 10. I agree there is a tendency to judge all the apples in the barrel by the bad ones, so I want you to know that any questions I ask are not directed in that frame of mind. But is has been said to this Committee, as you well know, there are abuses, and there are one or two I would refer to now. First is the example of credit sales where as additional

security, the merchant or the finance company take a wage assignment. Do you ever do that?

MR. PENNEFATHER: No, sir, we don't take wage assignments, at all.

MR. SEDGWICK: Then we have been told of cases where in addition to the security of the specific goods that are sold, a general mortgage is taken on virtually all the furniture that the purchaser owns. Do you do that?

MR. PENNEFATHER: Well, sir, I don't see how that would fit into the concept of an instalment sale. That could well be a situation where a loan transaction were involved.

MR. SEDGWICK: But it's not an instalment sale. You don't do that?

MR. PENNEFATHER: We do not.

MR. SEDGWICK: You do not.

MR. WHITE: I don't suggest it's a common custom. I know that this general practice of adding furniture, etc. doesn't enter into this type of conditional sales contract. I don't think it can, legally.

MR. PENNEFATHER: No.

MR. WHITE: But it is true that your firm will take an accompanying chattel mortgage on occasion?

MR. PENNEFATHER: Well, sir, there would really be no occasion on which that would arise. If you try to put the transaction in the light in which I have tried to suggest it to you, this is what actually

happens. The merchant has completed a sale of goods, and this sale stands on its own feet. The merchant later offers the contract to us for purchase. Now he has concluded a deal which is represented entirely by that conditional sales contract.

MR. WHITE: Well, to give you an illustration. Let's say a small contractor has purchased a bulldozer on a conditional sales contract and let's assume he's paid it out. Then he finds his business has grown and he gets a second bulldozer. He's paid for all of the first, maybe in instalment payments, for that matter. There is a lot of equity in the first one anyway. He needs a second one but he has no cash, so he can't make the 20% down payment.

MR. PENNEFATHER: He might borrow on the first one, that's the point I was going to make, Mr. White. That would be a separate deal entirely. He might borrow on the first one. As I have pointed out in here, too, the merchant has no way of knowing to what degree his cash sales are validly a cash sale, they may well result from the consumer, either a business or an individual, having gone out to borrow the money first and then paying cash. This is a matter of choice which the consumer can exercise.

MR. WHITE: Well, it's a case of terminology, but in point of fact, we did on occasion handle deals like that. It was well known to your firm as a matter of fact. They helped us. There is nothing wrong with it at all.

MR. PENNEFATHER: I think you are

thinking of a commercial transaction primarily.

MR. WHITE: I see nothing wrong with that. I'm not concerned with that at all. But, I mean to say, where you get transactions involving two businessmen it's an even-steven deal. I am concerned, however, about transactions which involve a very sophisticated -- let's say an automobile dealer -- and an unsophisticated buyer. Now I have reason to think that among them are the highly successful dealers, well regarded by his customers for the most part, makes it a practice of including household furniture, etc. He includes those on notes accompanying the sale of automobiles, both new and used. If the customer says, "What's that? Heavens, I don't want all my furniture pledged against this deal". Then the salesman is instructed -- he gets his instructions in writing and I have a copy of it given to me in secret -- then the salesman is instructed to say to a customer, "You are intending to pay for this new car, aren't you?" Of course the customer says, "Yes". "Then what do you care if your furniture is on it?"

MR. NICHOL: We don't carry on a practice like that but I imagine this transaction has got to do with a loan company under chattel.

MR. PENNEFATHER: I suppose. I was wondering if this might be within a conditional sale contract because the purchaser already owns the furniture so that the dealer can't, in effect, sell this furniture to the customer and include it under a conditional sales contract. There would have to be a chattel mortgage

involved, so you would get into two sets of documents, which we don't do. I would think that transactions such as you describe would be accommodated through the facilities of a loan company because it is necessary that a loan be involved.

MR. WHITE: I think it's Capital --

MR. PENNEFATHER: Capital Finance company?

MR. WHITE: I think it's Capital Finance Company.

MR. PENNEFATHER: I was wondering if it might be a practice related to one where some merchants finding a customer they want to sell, who doesn't have the cash for the required down payment, may suggest to him ways in which he can raise that cash on assets he already owns. Now this again would be a transaction outside the purview of our **purchase** of the contract, which would show a cash down payment, you see.

MR. BRAUN: Or he could take a chattel mortgage as collateral security to the conditional sales contract.

MR. WHITE: Would you consider Section IV of the brief for a moment? The last couple of sentences points out that the useful life of the asset exceeds the duration of the debt. This assumes a prudent lender.

MR. PENNEFATHER: A prudent buyer, let's say. Let's talk in terms of buying, as far as we are concerned, Mr. White.

MR. WHITE: It involves prudence on

the part of the dealer and I suppose on the part of the finance company. It wouldn't be of concern to the consumer.

MR. PENNEFATHER: Well, yes. Why do you mean it wouldn't be of concern to the consumer? If you are the consumer, sir -- my point was this -- supposing you have bought a refrigerator which has, let's say, an average ten year life. The duration of the debt which originated at the time you bought that was perhaps 18 months, so the useful life of the asset is ten years, and your purchase credit plan ran for a term of, say, 18 months. That was the point I was trying to make.

MR. WHITE: Now then, that leads to this question in my mind. Would IAC have any objection if it were true in this Province, as I understand it is in some Provinces, that only the merchandise sold at the time of the transaction proper were reclaimable?

MR. PENNEFATHER: That's all that is reclaimable, Mr. White, only what is in the contract.

MR. WHITE: And then sues for the unpaid balance beyond the --

MR. PENNEFATHER: Oh, you mean for a deficiency balance in the event of a default? Well, I will defer to Mr. Braun on that.

MR. BRAUN: It's a case in Alberta.

MR. WHITE: Is that satisfactory to your company out there?

MR. BRAUN: Well, I think so, in general. That's the trouble with it, it's the abuse of

it rather than the --

MR. NICHOL: The abuse of the goods.

MR. MacDONALD: Abuse in what direction?

MR. PENNEFATHER: The abuse of the goods. Although there is a provision in the Act that if the goods are abused you can claim deficiency.

MR. SEDGWICK:: Are all contracts made with that operation out there?

MR. PENNEFATHER: Not really, would you say?

MR. BRAUN: Not in the over-all.

MR. SEDGWICK: That is one of the questions I was going to ask. I see on page 4, paragraph 9 of your brief you say, "IAC will also wish to be satisfied that the unpaid balance of the purchase price will represent a reasonably safe relationship to the market value of the goods during the term of the contract. Do you assess the value of the goods?

MR. PENNEFATHER: Not actually, Mr. Sedgwick. What I was getting at there is that is has been traditionally a part of a purchase credit transaction that a safe equity is established by means of a down payment at the time of purchase. Now the relationship between the remaining balance and the period of time over which it is payable does, of course, bear a direct relationship to the normal expectancy of the market value of the goods concerned.

MR. SEDGWICK: Yes. And, of course, you will have some knowledge of normal values. We have been told about articles that were sold on time that had

very little value, or at least very little value as related to their selling price and if the claim has very little market value -- (rest of sentence inaudible) You don't handle --

MR. PENNEFATHER: We try not to.

MR. SEDGWICK: You try not to. Do you, in the case where it does, have a provision in your contract under which you can have recourse to the dealer? Can you reverse the --

MR. PENNEFATHER: Yes, with certain counter-guarantees as to our performance. In other words, if we ask the dealer to endorse unconditionally and we fell down on our job, this would be a pretty expensive process for the dealer. So there is no --

MR. SEDGWICK: By that you mean if you fell down on your job of checking the account?

MR. PENNEFATHER: Yes, or we are careless in our credit appraisal, and so on. So that we also provide protection for the dealer against events which are sort of beyond his control, as for example, the purchaser in the case of an automobile may skip, may decide to leave the Province and can't be found. If we can't find him, we undertake to relieve the dealer of his endorsement, and that sort of thing.

MR. SEDGWICK: Well then, Mr. Pennefather, when you extend wholesale credit to the dealer to permit him to buy the automobiles on the floor, is it a condition of the extension of that wholesale credit that he should give you first chance at his retail credit?

MR. PENNEFATHER: We wish it were, sir. I should turn that around for you too, sir. We don't, so to speak, advance money to the dealer to enable him to buy. We actually buy directly from the manufacturer. We take over his position, his title of interest in the goods. Then that forms the dealer's stock on his floor. Now he will sell those goods in the ordinary course of business, some for cash, some for credit, and we, of course, hope to derive a volume of conditional sales contracts that bear some relationship to the volume of wholesale credit that we extend, or the amount of our wholesale financing, is a more accurate term. But there is no way we can control that.

MR. SEDGWICK: He is still free to shop... as you said, it's a competitive business.

MR. PENNEFATHER: Exactly.

MR. SEDGWICK: Then, if he does make his sale and get his purchaser to sign one of your contracts, similar to Appendix IV, do I gather from your Appendix III that there is a spread between the charge that IAC makes to the merchant and the charge that the merchant makes to the buyer?

MR. PENNEFATHER: Yes, sir, there is.

MR. SEDGWICK: Yes. And that is the spread shown on Exhibit III?

MR. PENNEFATHER: That is right, sir.

MR. SEDGWICK: So that he has -- I take only the first item -- a new passenger car at $2400 -- your charge to the merchant will be $6.25 per hundred, is that right?

MR. PENNEFATHER: Correct, sir.

MR. SEDGWICK: And his charge to the buyer, the consumer, would be either $8.65, or any lesser figure that he cares to fix?

MR. PENNEFATHER: That is correct, sir.

MR. SEDGWICK: Yes. So long as he protects you, as to your $6.25, he can charge $6.25?

MR. PENNEFATHER: He knows that is the price at which he can sell the paper to us. What he sells his service for is something which he must decide.

MR. SEDGWICK: Yes.

MR. PENNEFATHER: Now it should be recognized -- if I may interpolate there, Mr. Sedgwick -- that that is a gross spread for the dealer. He, of course, has expenses that go with his credit selling and he also has the risks which we touched on just a few minutes ago. So this should not be viewed as it sometimes is, as net income to the dealer. It is gross.

MR. SEDGWICK: I see. And when you say "typical charges", these are charges that you suggest to him as being fair. But he is at liberty, I take it, to charge less or more if he can get it, is that right?

MR. PENNEFATHER: Within reason, sir, yes. Because I think you appreciate that in saying that we try to establish that a merchant is reputable it would follow, I think, that a merchant who is and who is a good merchant recognizes that if he overcharges either for cash or credit he isn't going to get his

customer back again.

MR. SEDGWICK: I appreciate that. What I said at the outset, it is of course true that the Committee, I suppose, is more worried about the bad apples than the good. But you have no control over that charge except in a general way over the term of your experience, is that right?

MR. PENNEFATHER: That is right, sir. We would try to use, take an advisory role, but we have, of course, no legal control. As I have mentioned too, the merchant can carry a contract himself, if he has the facilities, or he can sell it elsewhere. We, unfortunately, don't get all the business from any one dealer with whom we are doing business.

MR. SEDGWICK: But you would, however, be informed as to the charge that he put on?

MR. PENNEFATHER: Oh, yes.

MR. SEDGWICK: Because that charge would appear on your form, Appendix IV, so that you would at all times be aware of the spread in your basic charge -- again taking my same example of $6.25 -- and what the dealer put on?

MR. PENNEFATHER: That's right, yes.

MR. SEDGWICK: So if he, in your view was charging too little, depending on risk of loss, you could tell him so. If he was charging too much you could, again, ask him to cut down to what you considered was fair, is that right?

MR. PENNEFATHER: That's right.

MR. SEDGWICK: Because there will be

a sense, I suppose, which the purchaser will attribute to IAC the whole of the charges if they are mistaken?

MR. PENNEFATHER: That is true, Mr. Sedgwick. That is a basic problem of our industry.

MR. SEDGWICK: I appreciate that. So that you will want to keep those charges down, I assume, to at least no more than the typical recommended charges to your merchants?

MR. PENNEFATHER: That is right. As a matter of fact, the competitive elements that I have attempted to discuss briefly, result in the vast majority of their charges to the customer being at the low level rather than at the high.

MR. WHITE: On your industrial contracts, there is no such mark-up for the dealers?

MR. PENNEFATHER: I'm sorry, I couldn't hear that.

MR. WHITE: On your industrial contracts there is no such --

MR. PENNEFATHER: No, there isn't as a rule.

MR. WHITE: Well, I've always thought that there should be because the dealer is assuming an extra risk --

MR. PENNEFATHER: That's quite true. I think that perhaps the main reason there isn't one is that the industry is more subject to direct competition towards a particular unit. If an industrial buyer is out for a shovel, let's say, of a certain kind, it's a technical piece of equipment and the effort to sell

the unit results in the lowest possible spread in price whether for cash or for credit.

MR. WHITE: You leave that to the discretion of the automobile dealer and you don't leave it to the discretion of the equipment dealer.

MR. PENNEFATHER: Well, I don't know that that's exactly so. I suppose it's a matter, in both cases, of what the merchant can sell his services for. The characteristics of the market in which he is selling. One is a faster moving market, if you like, the consumer market. I think you must also recognize that although you mentioned a sophisticated automobile dealer a little while ago, when the public comes to trading in its old automobile, it's also pretty darn sophisticated too. (Laughter).

MR. SEDGWICK: I have only one other question. IAC, I take it, is independent in that it is not affiliated with any automobile dealer or appliance dealer?

MR. PENNEFATHER: That is correct, sir.

MR. SEDGWICK: You will compete with GMAC of General Motors?

MR. PENNEFATHER: Correct.

MR. SEDGWICK: And I think there is some affiliation with Ford Motors, is there not?

MR. PENNEFATHER: No, sir. Ford Motors has its own finance company too. Ford Motor Credit Corporation.

MR. SEDGWICK: I see. Then you compete with them?

MR. PENNEFATHER: Yes, sir.

MR. SEDGWICK: Mrs. Dell has shown me a copy of the Times for November 23rd and I will read you a paragraph and ask you if you would like to comment on it. November 23, 1962. It says, "Small finance companies --and I don't suggest yours is one -- contend that they don't get their fair share of financing of GM cars for two reasons. GM dealers are under pressure to give their accounts to GMAC which can charge lower rates than the independents because GM uses financing as a loss leader and does not make any profit on it. Do you encounter that kind of proposition?

MR. PENNEFATHER: Well, Mr. Sedgwick, this is a very contentious point, of course. We think we do, but I think too that I would not like to make this appearance a stand for talking about a competitor. I think I should merely say that it would be natural, I suppose, that GMAC, being the creature of GM Products, there is a certain family association there and the officials of GM Products naturally do try to pave the way for GMAC to provide its services. However, we feel, and have demonstrated, that we can meet GMAC's cost structure. I think General Motors on the whole is a very soundly operated organization, the results certainly show that. I believe it is their philosophy that each of their components must stand on their own feet and make a reasonable contribution to the over-all enterprise and I would doubt very much that it could be shown that GMAC were actually in a loss

leader position. Certainly I think they do have a cost structure which, as I have inferred here, is at what could be the lowest reasonable level that it could still be a liable, independent arm of the major corporation and that is why I suggested that it's a useful reference point for the Committee to have in mind that if the independents are able to meet the prices at which a captive company can sell its services, then the prices in general that the public are paying must be pretty well taken.

MR. SEDGWICK: I would think so. Then, may I take it from what you said, Mr. Pennefather, that your Company does a fair amount of financing with GM dealers and Ford dealers?

MR. PENNEFATHER: Yes. We would like to do a lot more of GMAC's financing, I might say, but we do do quite a substantial proportion of it.

MR. SEDGWICK: That is, it's a competitive market as between you and the automobile dealers including General Motors?

MR. PENNEFATHER: That's right, sir.

MR. SEDGWICK: That's all.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: Mr. Chairman, as usual I would like to direct attention to those matters dealing with disclosure of credit, your Section V, page 6, and on page 7 and page 8 and going on to page 9. You present various arguments -- in some I imagine you intend to add up to a reason for not advocating disclosure of finance charges as a rate percent per annum.

I am not going to try and get into any of the arguments in this area, but just ask a few questions. I believe there are counter arguments to some of those that you have put forward. But I would like to ask some questions and get your views on questions arising from your arguments and in particular on page 7, sub-heading B, item 2, in which, if I read you correctly, you are contending that people dealing with the sale of merchandise and incidentally developing a retail conditional sales contract, are not lending. I am going to ask Mr. Sedgwick to comment on that in a moment. But is it not so that if a person ends up, by however means, in owing somebody some money, and they have to pay something in addition for the use of the credit, that they are, in fact, borrowing and the dealer is lending. Might I ask Mr. Sedgwick to comment on that?

MR. SEDGWICK: I suppose it is colloquially. I am not sure that it is so legally.

MR. PENNEFATHER: May I come in, Mr. Sedgwick? I suggest that it is neither colloquially so, although unfortunately the terminology is used rather loosely. I think that if you are going to say that all credit is lending then, as I have tried to suggest here, you must say that the department stores who accept a charge account for your good wife for household durables or the service station at which you put in a credit card and charge your gas, somebody there is lending you money.

MR. IRWIN: Has anybody suggested that

they are not?

MR. PENNEFATHER: Oh, certainly, they are not. I think that you must recognize that there is a difference between the borrowing of money as such, where the applicant who borrows money goes into the office of the lender and in obtaining the money he wants he may be serving a number of ends for that reason. But the lending of money is, and always has been, a distinct entity from any other form of granting of credit.

MR. IRWIN: But still you have, in effect, loaned the money and all that's missing is an exchange of cheques. I could issue you a cheque and you could, in turn, issue me a cheque.

MR. PENNEFATHER: I think the fact is, sir, that it isn't so. If it is a lot of people have been breaking a lot of laws in that Eatons and Simpsons and so on, who have well established credit plans are not licensed lenders in any sense of the word. And I tried to draw the illustration here to make that, to draw that point home, that in the public concept, in the colloquial concept, people who use those credit services don't imagine or understand that they are borrowing money in any sense of the word.

MR. IRWIN: Well, let's leave them aside because they are not an issue today in your brief.

MR. PENNEFATHER: Well they are, sir, because we give exactly the same kind of credit to merchants who are competing with Eatons and Simpsons and others.

MR. IRWIN: Well, I would put it to you that if you buy a car and incur a debt, has not somebody loaned you money?

MR. PENNEFATHER: No, sir.

MR. SEDGWICK: May I interrupt? You asked me whether it was so legally. I don't think it is so legally, at least not if you take the Small Loans Act as a reference, because the Small Loans Act deals specifically with a money lender and he is defined as a person who lends money, not an issuer of credit. It defines a loan as being a loan of money by a money lender, so whether it is colloquially true that a purchase on credit is a loan of money -- and I'm not sure that it is -- I don't think it is legally true.

MR. IRWIN: Well, I have been very much struck today with this approach that no one is loaning me money when I enter into an instalment contract. However, --

MR. PENNEFATHER: Mr. Irwin, there is perhaps one other little concept that might help you there if you stop and think about it this way. There are just three ways really in which people can acquire goods. There are those who are fortunate enough to have the cash on hand in the bank. They can write out a cheque for it. There are those who, being more strong-willed than most will sit back and decide they are going to acquire something and they will save up for it first. There is very little difference between the act of saving first or the act of saving afterwards. You save the same principal amount in either event. Now if you

buy the goods before you have completed the saving, you pay more, which might be termed to be a sort of rental for the goods, if you like, while you are paying for it. And this gets close to the leasing concept. You must also consider then that a leasor and a leasee are in a lender-borrower position.

MR. IRWIN: Well, I won't pursue that matter further. Obviously I haven't been well educated. I will turn back to page 7, item 3 under sub-section A, in which here and in two or three other places which I could find but I won't bother trying to find -- and this suggestion has been made by other principals -- that if some discipline were imposed upon the -- I'm going to use the word even though I'm out of Court -- the lending of money in connection with this sales contract and the adding of charges for that loan, if you impose some discipline with this then the charges would disappear into the price of the goods and the price of the goods would go up and then the cost of financing the loan would go down. I would agree with that, but why would this be such a bad thing? Why is this an argument against disclosure of interest charges?

MR. PENNEFATHER: Well, sir, it isn't unless you feel -- it seems to me that the whole line of thinking you were developing was, that the consumer should know what he is paying for credit.

MR. IRWIN: I should correct you. I haven't developed any line of thinking right now.

MR. PENNEFATHER: All right then, certainly most of the publicity that we see in the press

today of the views expressed for this and other Committees, seems to be concerned with the point that the consumer should know what credit is costing. Now this is distinct from the question of how you disclose it, but that he should know what his credit is costing him. Now if the eventuality you foresee took place and though the requirement that an unrealistically high interest rate number had to be used for small balances and small charges related to them, it's very probable that that simply wouldn't be quoted as a credit transaction. There might be a discount for cash or there might not. You will remember that in at least one brief you have had before you, and in various other places, Hazen Argue's famous illustration about the $20 deal with the 54% rate comes up. One aspect of that that wasn't presented to you, although I suppose you have thought of it, is that if that same deal of $20 had been offered on a basis of 22-25, with four months to pay for it, or a 10% discount for cash, nobody would raise an eyebrow. Now that would probably be what would result. You say, what would be wrong with that? I don't know that there is anything particularly wrong with it, provided you feel that the consumer doesn't even know what the credit is costing him.

MR. IRWIN: I often wonder about this argument; so the price of the goods goes up so therefore I can shop down the price of the goods. In fact maybe one might carry it to the logical conclusion and say let's put everything into the price of the goods

and have no --

MR. PENNEFATHER: Mr. Irwin, that's really my argument exactly, that credit is part of the dollar cost of the goods --

MR. IRWIN: If I could ask a further question? Why does anybody make a distinction then? Why has it developed that we have to be --

MR. PENNEFATHER: That's a very good question and I think that it is really a matter of the characteristics of each individual trade that forms part of the over-all spectrum of retail dealing. I mentioned to you that the conditional sales contract form we use has had the disclosure element in it for the 36 years I have been in the business and I really think -- although there is no historical record -- that probably arose simply as a matter of convenience of providing the dealer with a place where he could get from the cash price through the down payment through the insurance and the add-on to the deferred balance. It was the most convenient place it could be and I think that's really how it came about.

MR. IRWIN: Well, I won't pursue that here. On page 7, number 3 under sub-section B, another fairly usual argument -- if I interpret it correctly -- that the consumer hasn't really been exposed to any other type of disclosure of the cost of money or the cost of financing -- the conclusion is almost invariably drawn that therefore that is what he likes, but insofar as you yourself state, nobody else has tried it, I don't see as this produces any conclusion.

MR. PENNEFATHER: Well, Mr. Irwin, my point there is that there is not now, and so far as I know there never has been, any basis, any market where the consumer could go for instalment credit where a simple rate of interest was used to measure cost, therefore, those who contend that if you now stated for a certain section of whatever credit the consumer gets, it would be in that form. He doesn't get any comparison with anything else nor does he have any record in the background with which to compare what he might now be charged.

MR. IRWIN: So why is this included as an argument then against disclosure because --

MR. PENNEFATHER: Because those who propose that interest rate disclosure be used, and Senator Cole is one, give as their reason for proposing it that it gives the consumer a better basis on which to shop the credit. I am trying to show that this is not so.

MR. IRWIN: Well, I think the point I am trying to make is that insofar as no great body of consumers have been presented with the alternatives, disclosure in dollars and cents and set aside that disclosure in percentage rate per annum, insofar as that test has never been made and nobody can say what the consumer really would like to have and therefore the argument that because it has always been disclosed in dollars and cents it should continue --

MR. PENNEFATHER: That's not my point, Mr. Irwin. Perhaps I haven't expressed it well. I have

not contended that it's always been disclosed in dollars and cents. I have shown you that there are many areas of consumer credit where no disclosure is given at all -- 30 day charge accounts. You know there are certain merchants who advertise cash prices on credit. Pre-war, one of the largest department stores in the country had only one price, it was a time price, there was no discount for cash. This is nothing new. But I am suggesting that in those areas where it has been the practice to set up a separate charge for the credit it has usually been disclosed in dollars and it seems to be what most consumers accept.

MR. IRWIN: It doesn't necessarily follow that they wouldn't also accept the other. I don't know whether they would or not, but I just don't find the fact that it is being done is necessarily that which should be done.

MR. PENNEFATHER: Well, you appreciate that I had in mind the arguments of Senator Cole there in making that point.

MR. IRWIN: My last point, Mr. Chairman, in on page 8, number 8, in which you suggest, Mr. Pennefather, the difficulty of arriving at an expression of an equivalent interest rate and this also has been presented to the Committee as an argument against disclosure of this nature. I wish you would comment further on that.

MR. PENNEFATHER: Yes, Mr. Irwin, I would be glad to. If I may refer back to something I heard you mention -- I dropped in for a little while

when the banks were on -- and you made a suggestion that perhaps one answer to this problem would be that we legalize each of the five principle methods of disclosing interest. Now, we brought with us a little table that might interest you on that. May we distribute this little thing, in case you would like to look at it?

Now, gentlemen, we have attempted to set out for you here a point which I thought seemed to be interesting you when you had the banks up and we have only taken two of the five methods of computing interest because we thought that would make the point without giving you too many figures. You note we have taken in Section A there, a comparison of rate on identical dollar charges. In other words, if a dollar charge of $459.56 were arrived at on a $3,000 account to be repaid in 36 equal monthly instalments, you would arrive, on an actuarial basis, at a 9½% rate, on a constant ratio basis at 9.936, which, if those rates then were used and a merchant were advertising, say, 9.936 cost for this deal, he would appear to be underquoting the fellow who was charing 9½ actuarially, when they were both charging the same dollars. Now turn that around the other way, down to B, and you will see that if a 9½% rate were advertised and it were computed actuarially, the cost would be $459.56 and on a constant ratio basis, $439.37, and you come out with a difference of $20.19. And, of course, as you go up to higher charge multiples, the difference in dollars becomes greater. Now there are so many permu-

tations of this kind of thing this is one of the reasons why we feel that an interest rate becomes a confusing issue.

MR. IRWIN: I can't check these out --

MR. PENNEFATHER: I think you can take our word.

MR. IRWIN: I would gather -- they look pretty good -- however, I would make another suggestion. Why don't you have the direct ratio method as a third column there and I think you would find that it was closer to the actuarial rate. In fact in these ranges it probably is very, very close. The direct ratio method appears to be a little better guide than the constant ratio. The constant ratio, in my experience, gets further and further away from the actuarial as the number of payments increase and the rate increases.

MR. INCH: We have used these two methods because actually they are the only ones that are generally used in establishing rates today.

MR. IRWIN: That is true, although I --

MR. INCH: The direct ratio is -- unless you are dealing with exact equal monthly instalments, is almost impossible, whereas there are various methods to arrive at the constant ratio method and this is generally accepted as --

MR. IRWIN: This is very useful and perhaps the direct ratio added to that might add a further comparison. I don't know. I wouldn't find these differences too startling. I am sure that state-

ment you will find very startling, because I think, at least my feeling on the matter is, that if we try to get it too close, by points of decimals, we are in to an impossible task. But if can find some tolerances which are acceptable, it's not too bad.

MR. IRWIN: Your Company has common stock, of course, and I suppose preferred stock and you pay a certain percentage on that preferred stock?

MR. WHITE: And another source of funds is short term paper sold through the money market bearing a rate of interest which we laymen understand is a simple rate of interest providing a certain yield and I suppose you borrow from the banks and you pay them a simple --

MR. PENNEFATHER: No, we don't, sir.

MR. WHITE: What do you pay?

MR. PENNEFATHER: There is no simple interest rates used in business today, Mr. White. Now, that may sound like a startling statement but it's quite true.

MR. WHITE: Well, an effective rate or a true rate of something? Explain the differences you are required to pay to your sources of funds, would you?

MR. PENNEFATHER: Surely. If we start with the shortest term money we use, which is 3 day money up to less than 365 days, this is what is called the short term money market and we sell notes in the open market which is governed by the day to day movements in the money market. The bellweather, as you

know, is the 91 day treasury bill rate which results from an auction every Thursday. Then in the period in between, that again moves according to the money market fluctuations up and down each day. Now this puts a sort of a floor under the bottom of the rate structure and it moves up above that for the longer terms as you go. We find that at the 90 day level the money we buy in this way, the money we rent in this way if you like, costs us a spread over the bill rate of usually somewhere close to a half a percent.

MR. WHITE: What would that be right now, approximately?

MR. PENNEFATHER: 3.63 is the bill rate at the moment.

MR. WHITE: What is that, that's the first point I would like to clarify. 3.63, which is the amount of your cost, you would consider an effective interest rate?

MR. PENNEFATHER: That's right, an effective interest rate of 3.63.

MR. WHITE: An effective rate, okay, carry on please.

MR. PENNEFATHER: The bill rate -- that's what I thought, Mr. White was asking --

MR. WHITE: That's the effective rate?

MR. PENNEFATHER: Yes. Then you come to the next highest multiple, the next higher multiple for borrowing would be bank money which goes at the prime rate of 5.75. Now I said a minute ago that wasn't simple and I should perhaps explain that by pointing

out to you that the school book simple interest we all used to learn about is, if you borrow $1,000, repayable exactly 12 months later at 6% simple interest, you repay $1,060. But when you borrow commercially from the bank on a demand loan basis, let's say, you pay your interest each month. Now as soon as that $60.00 on simple interest illustration is paid at $5.00 a month it is still $60.00 but it's something higher than a 6% simple interest rate, right?

MR. WHITE: Yes. Okay, and this is what you say is the effective rate of interest?

MR. PENNEFATHER: Yes. In practice one ignores the subtleties of the difference between the multiple of 5.75 stated as a perannum rate paid monthly works backwards and produces something other than 5.75 to the bank.

MR. WHITE: The point I am getting at is this: In the various funds which you employ you have to translate cost in some kind of common quotation.

MR. PENNEFATHER: That's right.

MR. WHITE: When you turn around and lend money on industrial and different sales contracts you quote the dealer a certain rate of interest --

MR. PENNEFATHER: An add-on rate, yes.

MR. WHITE: 6% or 6½ or 7%. Now this is immediately and easily translatable into an effective rate of interest?

MR. PENNEFATHER: No, sir, it isn't. If I may differ -- that is a multiplier, if you like, which is used to arrive at the dollar cost of the charge.

And the merchant compares the dollar charge made by one company with the dollar charge made by another.

MR. WHITE: If we sold a $10,000 bulldozer and we called IAC, they would say, "Yes, the rate is still 6%, flat". And 6% flat on $10,000 over a year would be about $600.00?

MR. PENNEFATHER: Well, that's true, but I think -- sorry, Mr. White.

MR. WHITE: Then we would say, on occasion, "What does that mean in effective rate of interest?" And one of your very able representatives would say, "That's 11.52", or something like that. Now was that or wasn't it the effective rate of interest?

MR. PENNEFATHER: Sure.

MR. WHITE: And he came up with it very quickly, so there is a way of knowing?

MR. PENNEFATHER: Sure, oh yes.

MR. WHITE: There is a table or something.

MR. PENNEFATHER: Mr. White, that's because you are talking about a transaction in terms that are dealt with at the business level, if you like. Now where you get into retail selling, which I must say we have come prepared more to talk about that commercial transactions --

MR. WHITE: Well, I was going to approach that next.

MR. PENNEFATHER: Well, do you want me to go ahead then, or would you like to --

MR. WHITE: Well, it makes no difference

to me.

MR. PENNEFATHER: Well, I was just going to make a point that the rate you are talking about can be relatively easily developed from a contract which is regular in all respects. But where you get into the deals commonly made by retail dealers, you find that there are few, if any, of them that are exactly regular. Now just to make the point, I asked Mr. Inch, before we came away, to go through our Billing Department and take the first 200 consumer deals he came across and count them to see how many he found that started off with the first payment that started exactly 30 days from the day of purchase and where the instalments were regular and where the last one wasn't doubled or lower or something of that sort. And there was none of them that were exactly regular and therefore lent themselves to the kind of calculation that you are illustrating.

MR. WHITE: If the charge were regular on instalments, in terms of interest, there would be no problem.

MR. PENNEFATHER: Well, Mr. White, that's true, but when you finally get back to it, you still have to get to the dollars to find out what you are really going to pay. Now, for example, if you had a mortgage transaction, if you were considering raising $10,000 on your home and you went to a mortgage lender and said, "What sort of a deal will you offer me", and he suggested that for a 25 year term he would give you a 6½% rate. You go across the street to a

competitor and ask him for a rate and he says, "Well, I'll lend it to you at 7% for 20 years." Now how would you know which deal you are going to take?

MR. WHITE: Well, I can't see any problem there.

MR. PENNEFATHER: Well, what would you do? -- to arrive at it?

MR. WHITE: These two rates are identical.

MR. PENNEFATHER: No. They are computed identically, but one is a 6½% rate and the other is a 7. Which one would you take?

MR. WHITE: The 6½ is 25 years?

MR. PENNEFATHER: Yes. And the other is 20 years.

MR. LAWRENCE: (Inaudible)

MR. PENNEFATHER: Well, you would be $1,600 wrong.

MR. WHITE: No you wouldn't. (Rest of sentence inaudible)

MR. PENNEFATHER: No, sir, no, no, I'm not assuming there is any rewriting of the deal on the way through. I'm assuming that if you use the tables that are governmentally approved computing this kind of a deal and you take the 25 year deal and multiply out the monthly instalment, which is $66 and something, by the 300 months you have got, it will come to $1,640.00 more than the 7% deal on a 20 year basis.

WHITE AND IRWIN TOGETHER: (Inaudible)

MR. PENNEFATHER: No, wait a minute. This is the other equation that the consumer has to bring into effect. He has to establish first what monthly payment is going to suit his budget and secondly what are the two dollar totals he is going to pay. Now it may suit one man better to pay the extra $1,600 to have a lower monthly payment by $10.00. But the only way he knows which deal is better for him is to measure those two components, the monthly payment and the total cost.

MR. LAWRENCE: The way to measure that, of course, is at the end of the first 20 year period. He owes a lot less on the 6½% deal than he would on the other 7% deal, therefore he's got a standard right there.

MR. PENNEFATHER: Well, you are talking as if the man paid a rate. I contend he is paying dollars for the credit and he pays $1,600 more to have a 6½% deal for 25 years than to have a 7% deal for 20 years.

MR. LAWRENCE: Yes, but not at the end of 20 years.

MR. PENNEFATHER: But that's not the deal his is making. That's the point I am trying to establish. How does he know which deal he wants to go for at the beginning. He presumably is going to go through with the deal he makes to the end of it. That's the way most of us operate. I'm just trying to point out to you that if you have an interest rate available to compare, that doesn't necessarily tell you

that in the final analysis it isn't useful.

MR. IRWIN: Why then don't mortgage companies quote their mortgage deals in just those terms?

MR. PENNEFATHER: Well, effectively they do. They give you the multiples and you can work it out if you want to.

MR. IRWIN: Well, it hasn't been my experience that they quote it in those terms.

MR. WHITE: This, of course, is quite right, but you are introducinga new variable, time.

MR. PENNEFATHER: Yes, I'm doing that on purpose, Mr. White, because I want to illustrate that those are two deals that you might well run into if you were seeking that kind of accommodation. And it demonstrates that the interest rate by itself doesn't give you the answer you need.

MR. LAWRENCE: I think our point is that the cash payment also doesn't enter the whole of the transaction. I think you have made it clear to us that it can boomerang on you because the interest rate alone --

MR. PENNEFATHER: You mean the present value of the money you've got, the difference between your monthly payouts enters into that? Well, I was ignoring that for the moment because it isn't a big element in the dollars involved.

MR. WHITE: Could I pursue this for a moment? You see, the thing that strikes me in all these arguments -- and by the way I haven't formed any

opinion or conclusion in this matter, I'm still trying to develop one -- yesterday I did take one side of the question in an effort to bring forth some facts and opinions, but I still don't know what the recommendation from the Committee should be.

MR. PENNEFATHER: Just before you go on, Mr. White, may I add this one point that in bringing in a mortgage loan illustration there, I may have deviated a little bit myself in that I have always assumed that the general public use or assume that the cost of borrowing money is usually expressed as an interest rate. Now, although Mr. Irwin doesn't agree with me, I contend that the merchant who is selling goods and as a service element goes along with it, as, for example, the 30 day charge account situation, that this develops costs in dollars more than the interest element involved because when the merchant sells the goods on time there is no additional investment by him. When you approach a merchant, for instance, in a store and you are going to buy a refrigerator or washing machine or what have you, he doesn't know as you walk up to that unit whether you are a cash buyer or time buyer. And whichever one you are it doesn't increase his investment in the goods, of course. The difference, as I suggested in my brief, is that if it turns out to be a time deal he incurs certain additional risks and he gets his money back out of his goods more slowly than if it were a cash deal. It's in the nature of things that you are buying a good and you usually pay for a good in dollars and

cents. If you are buying for cash, for example, you don't expect the merchant to disclose to you the percentage markup of his cash price over his cost price. So it doesn't seem logical if it is a time deal that you should expect him to express that difference as a percentage either.

MR. SEDGWICK: If you reverse it, Mr. Pennefather, and said to the purchaser, said to every purchaser, "My price is $2,000". Then the purchaser says, "I want to pay cash". "All right", he says, "You can have 15% off".

MR. PENNEFATHER: Of course, that is done, Mr. Sedgwick.

MR. SEDGWICK: I know it is, I know it is. How do you express that in terms of percentages?

MR. PENNEFATHER: You can't.

MR. SEDGWICK: Supposing there is -- to go on further -- the man says, "Well, I was going to pay cash, but I'll pay you within a year". You say, "All right, within a year I'll give you 10% off". "Two years 5% and three years nothing". But my price is $2,000.

MR. LAWRENCE: Now then, would he know the cost of his credit?

MR. SEDGWICK: He would certainly know the cost of credit in terms of money, in terms of dollars, which is Mr. Pennefather's point. But you wouldn't know it in terms of interest.

MR. PENNEFATHER: No.

MR. LAWRENCE: He knows how much by a

percentage of interest.

MR. SEDGWICK: He's a much better mathematician than I am.

MR. WHITE: The point is that some or all of the carrying costs might be better. I think that would be one of the effects.

MR. PENNEFATHER: I'm sure it would, Mr. White.

MR. WHITE: It can be done. Whether it's useful or not -- Mr. Lofquist, the representative from the Ontario Bank of Commerce, said it posed no problem for them in their Small Loans Division and Mr. Wilkesbury candidly said, this morning, that it would be easy enough for them to do it in the small loans business. Now, it can be done, can't it?

MR. PENNEFATHER: No, sir. (Laughter). No, sir, it can't. You were again referring to the position of the lender who -- let's say the bank is a big institution there and you go into the bank and you are talking to officers versed in the technicalities of this kind of thing so, true, the mathematics can be applied. But what do you do if you are a resident of Hagersville, let's say, and you go into the automobile dealer there, who has his coveralls on and he has just come out of the back field and you ask him to convert this price in to a percentage element. Now if this takes place at night or a Saturday or some time, he can't --

MR. WHITE: You are providing your dealers not with a schedule of payments as illustrated

by this example you have given to us. This 6.25 on $2,400 is, has a particular one, unique, effective interest rate. Let's say using the actuarial method.

MR. PENNEFATHER: That is a multiple -- $6.25 per $100 per year. That's the only percentage factor there.

MR. WHITE: I know it isn't, but there is a percentage factor relating to it.

MR. PENNEFATHER: Which one of the five methods are you going to use to convert it back?

MR. WHITE: That, of course, would have to be defined in the legislation. That's acknowledged. You couldn't leave the definition of interest up to every extender of credit or you wouldn't be helping the cause much. But assume for a moment that the actuarial method were used, then that $6.25 relates to a unique, effective interest rate. Is that not correct?

MR. PENNEFATHER: No, sir.

MR. IRWIN: If I could interpose here. If you also look at the two lines immediately above, I think you would have to agree it did. In other words, if the terms were that $100 were financed in equal monthly payments for 12 months, then $6.25 can be and can only result in one answer, using the actuarial method.

MR. PENNEFATHER: Oh, yes, if they are all regular monthly instalments. But I have just finished giving you the example that we don't have them that way.

MR. WHITE: All right. I know there are complications if the payments are uneven, but thank you, Mr. Irwin, that was the point I was trying to make. So in standard deals like this, in addition to providing this absolute cost to the merchant, you could say this is an effective rate of such and such and in addition to this suggested merchant charge, you could put this is an effective rate of such and such.

MR. PENNEFATHER: Again, sir, if you straightjecketed all retail transactions to the point where the first instalment had to be 30 days from the day of sale and every instalment had to be equal, no skips or balloons or anything of that kind, yes, that could be done.

MR. WHITE: Yes, that's right. Then on your industrial contracts you would make your first payment any day within the first 45 days?

MR. PENNEFATHER: This is true.

MR. WHITE: So there are 45 variations even if you get equal monthly instalments. If you introduce a tolerance into your effective interest rate,--

MR. PENNEFATHER: Introduce what?

MR. WHITE: A tolerance. You say this is between 11 and 12%, let's say. Then --

MR. PENNEFATHER: Then what is it?

MR. WHITE: Then whether you pay on the first of the 45 days or the last of the 45 days would be a --

MR. PENNEFATHER: I don't really agree

with you, Mr. White, because arithmetic isn't just a matter of approximations. You have a rate that is 11.79 or it's 12.5, but it isn't about anything else. It works out to that. I don't think you can really logically come up to an approximation. This is the problem Alberta got into and Manitoba too.

MR. MacDONALD: Except bearing in mind that the purpose of disclosure is to give the consumer an opportunity to make comparisons.

MR. PENNEFATHER: That's my point, Mr. MacDonald. What does he compare with.

MR. MacDONALD: Well, if everybody is working on the same standards he compares a declared 11.2 with a declared 14. something in another company and he knows he is getting a better deal.

MR. PENNEFATHER: But he still has to add up the dollars he is going to pay, Mr. MacDonald. When he is told that it is going to cost him 54% for that $20 jewelry we were talking about, this sounds alarming. But it's only $2.25 he's talking about. Now which is more meaningful to him, 54% or $2.25?

MR. WHITE: Now we are talking about the usefulness of it, rather than --

MR. PENNEFATHER: Well, isn't that the object of the whole thing?

MR. WHITE: Quite right. One question I had is, the reputable institutions, lending institutions, reputable salesmen, they avail themselves of the service. I remember now a customer of our who, a contractor who, one would think would be agile with a

pencil, was asking what it would cost him to buy a piece of our equipment, using your facilities, and we said 6% per annum. We didn't bother to say probably it was 11.5 simple, we wouldn't want to complicate things. And he said, "Well, that's no good, I'm getting my money at 2%", which seemed like a pretty good bargain, but that turned out to be 2% a month. (Laughter).

MR. PENNEFATHER: I think you are making my case for me.

MR. WHITE: So reputable people might benefit from a clear declaration of effective interest and I can't help but think there is a way of doing it.

MR. PENNEFATHER: Well, Mr. White, that, of course, is a problem that we face. We are giving you what is our real conviction on the thing. I don't know if you have had it brought to your attention -- this book of Professor Johnson's that Columbia University put out. He starts off by making that declaration that sounds almost morally wrong to say that you shouldn't use an interest rate form of disclosure and in his introduction he says that this was the starting point from which he went through his investigations of the thing and he concludes that there are really more opportunities to deceive the consumer through an interest rate form than there is in dollars and cents disclosure.

MR. REILLY: Is he an economist?

MR. PENNEFATHER: He is at the University of Michigan. I don't know whether he is an

economist or not.

MR. IRWIN: I can't avoid interposing here. I think before you quote Mr. Johnson you would have to submit to cross-examination on all of his arguments which aren't altogether necessarily the views of other economists.

MR. PENNEFATHER: Well, this is an issue which certainly has created a lot of controversy, Mr. Irwin. If you have seen the Douglas Bill testimony you know it stands about this high in fine print. I would hate to try and wade through it myself.

MR. REILLY: I can't help but note the difference between, similarity between the economists and the lawyers. (Laughter)

THE CHAIRMAN: Mr. Lawrence?

MR. LAWRENCE: Well, I'd like to leave that for a little while anyway. First of all I say good for you in coming forward with a very informative, very blunt, very argumentative and very opinionated brief. However, some of these facts, I think, -- I've had some information come to me that don't quite, that information just doesn't seem to jibe. I fully agree with your views here that social workers and legislators only hear about the abuses. I think that is true. Sometimes I wonder why we aren't a little bit more mentally voiced than perhaps some people think we are.

MR. PENNEFATHER: I know you are exposed to a lot of it.

MR. LAWRENCE: In any event, just by

coincidence yesterday morning I had a fellow come in to me with a story -- as I say, this doesn't jibe with some of the evidence or some of the facts you have given us -- this was a man who read an advertisement last July 1st in the Toronto Globe and Mail, regarding an oversized, extra-special-, super-duper, television set, being offered by a franchised appliance dealer here in Toronto. And the story was, pay $13.00 a month -- I don't know for how many months -- and the thing is your, you see. But, you have got to do it today, July 1st, this is our big Dominion Day sale. If you don't do it today we will never offer this again, etc. He had been looking at that very same television set at another place, so he knew all about it. So he phones the gentleman up. By the way, the other part of this was that no payment need be made until September first. Now the story that I get from him is that he phoned the store up and said to deliver the television set. The television set comes along, delivered by a trucking concern, two burly men who hand him what he thinks and now says, in any event, was a delivery slip. Sign here for the television set. Well, the kids are climbing all over him, I gather, to take a look at this new set, he hasn't got his glasses on, and fool that he is, he signs. $13.00 a month starting September first, -- this is on July first. Fifteen days later he gets a form letter with a little book of coupons to pay to IAC, $14.00 a month payable immediately. As I say the difference -- this is probably for the man's own good, in any event, but he doesn't recognize this

and he gets hot under the collar and goes down to the Globe and Mail and gets photostats of their advertisement and comes back up to IAC, I hear, and starts to raise the roof about this. First I was to pay $13.00 a month, starting September first, and now you want me to start paying you $14.00. Finally -- he is known around the building here, in fact, he is a very bad credit risk -- I know this very well -- he is connected in some minor way with the press gallery, so that in itself -- (Laughter). In any event he raises the roof and the final threat that he says IAC finally backed down on was that he was coming before this committee and expose the whole mess.

MR. PENNEFATHER: In a way I wish he had, Mr. Lawrence.

MR. LAWRENCE: Well, I'm confused because (next few words inaudible) the procedure very, very succinctly puts out about how there is an investigation into the man's credit rating, presumable -- do you use this Bureau or credit thing we heard about this morning?

MR.PENNEFATHER: We have one of our own, Mr. Lawrence.

MR. LAWRENCE: Well, I mean, this man certainly does have a bad credit rathing, I know that. There is nobody else around, it is merely a cartage company for whom he signs this conditional sales agreement, it must have been, it couldn't have been anybody else. Now to make matters worse you come here today and tell us that while these goods are actually on

the floor of this merchandiser, these things right then and there belong to you, as I understand it.

MR. PENNEFATHER: As soon as we have sold the contract it does, Mr. Lawrence.

MR. LAWRENCE: As soon as you have sold the contract, not before?

MR. PENNEFATHER: No.

MR. LAWRENCE: Well, I misunderstood that. But how does this exactly -- could this sort of thing happen to your Company?

MR. PENNEFATHER: Well, it could. There are exceptions to every rule. I have, of course, necessarily confined myself there to what is the standard procedure. I couldn't be expected to know what happens in every individual case.. I also would suggest to you that in this case, for what it may be worth, I don't think an interest rate form of disclosure would have been of any help.

MR. LAWRENCE: No. There are more abuses in the field than non-disclosure of interest.

MR. PENNEFATHER: There are indeed, there are indeed. I don't know how to prevent things like that. The kind of character you describe is probably the bane of a lot of people's existence because he is a very plausible guy when he starts off. I guess it's much like the life insurance business. By all the checking they do they may write up a case who becomes a heart attack victim the next day. We do what we can to prevent that kind of thing, but we can't, of course--

MR. LAWRENCE: But we hear these

stories every day about companies, sometimes they are your Company. An outfit as large as yours can't help but run into it. But this is another abuse in the field where people are told one thing and stupidly think they are getting into a transaction, the type of which they are told they are getting into, and find to their horror later that they are not. Now, apart from disclosure of interest, this is another matter that I feel falls directly into the purview of this Committee and this Committee has got to do something about it as far as recommending legislation to the government. Now, how do we do it?

MR. PENNEFATHER: Mr. Lawrence, I would just make one general observation that this is somewhat akin to the kind of thing we ran into many years ago when prohibition was being booted by a lot of very well-intended people. As you know, we all found to our regret that you can't legislate sobriety or good judgment into people. And I don't think there is any form of legislation that I can imagine that will prevent people from being stupid. I fear that any sort of legislation that you might try to put on the books only adds up to inhibiting the freedom of action of those who do use good judgment. I think you will find, if you examine the statistics, there is nothing wrong with the over-all conclusions that I have tried to present to you there. We couldn't stay in business if there were.

MR. LAWRENCE: I appreciate that. What if legislation, for instance, required a purchaser

to at least have a copy of the conditional sales contract?

MR. PENNEFATHER: Well, I think that's a very reasonable point, Mr. Lawrence. We have always automatically provided for that. I was under the impression that everyone --

MR. BRAUN: I don't think in Ontario, no. Some of the Provinces, in their conditional sales contracts have that.

MR. LAWRENCE: They do?

MR. BRAUN: Yes, they do.

MR. SEDGWICK: I think it is done, but I don't think it is done by any legislation.

MR. BRAUN: Well, it's in the conditional sales contract, the Conditional Sales Acts they have.

MR. SEDGWICK: Yes, but not in Ontario.

MR. BRAUN: I don't believe Ontario, although offhand I can't recall, I'm not sure.

MR. LAWRENCE: Well, another thing. Your actual agreement here is pretty long and pretty complicated. There is an awful lot on the back.

MR. BRAUN: We know it. I like to tell people not to read anything, I mean not to sign anything until they read it. (Laughter)

MR. PENNEFATHER: I would like to tell you that my introduction to the business consisted in being tapped on the back and somebody handed me one of those and said, "Read it and you will know all about the business". But I agree with you, it is long. We have attempted to bring it down as far as we felt we

could. The type is readable. I don't know, there may be some way we can devise to shorten it up.

MR. LAWRENCE: Well, the only other alternative on some of these things, of course, is -- and this has already been suggested to us in regard to mortgage applications -- is some of these things are going to be null and void by legislation until people do get a chance to --

MR. PENNEFATHER: Well this, as you know, has been mooted in England and other places and I fear, as so often happens, this only invites another way to get around the regulation that is inconvenient to both the buyer and the purchaser because it seems to me that if you say there must be a period of 72 days or 72 hours, let's say, before the agreement becomes binding, doesn't this simply result in the merchant withholding delivery to the resulting inconvenience of the buyer?

MR. LAWRENCE: Maybe it does and maybe it doesn't, I don't know.

MR. PENNEFATHER: I don't know either.

MR. MacDONALD: I'm sure it would be a minor inconvenience compared to the abuses that are created.

MR. PENNEFATHER: Well, Mr. MacDonald, it could be, but I would feel, for instance, if I went in to make a purchase and I feel I am able to manage my own affairs, I think I would be resentful of the fact that the merchant couldn't let me have the goods because he was afraid that within the time I might change my mind.

I feel I should be able to handle these things in a mature way.

MR. LAWRENCE: Well, in any event --

MR. MacDONALD: How about door-to-door sales?

MR. PENNEFATHER: Well, this is a problem, Mr. MacDonald, that we are really not able to discuss.

MR. LAWRENCE: You are not in the home improvement field?

MR. PENNEFATHER: We are through dealers, but not on a door-to-door --

MR. LAWRENCE: They make personal application to you, or what?

MR. PENNEFATHER: No, I mean that if, for instance, a large firm -- I don't like to mention names, but I'll give you the name of some -- sell a customer and the resulting deal is offered to us for purchase, this in the same sense as an automobile contract or something of that nature -- it's a requirement in the paper work that the work has been done and the purchaser is satisfied with it, etc.

MR. LAWRENCE: These are your own regulations?

MR. PENNEFATHER: Yes.

MR. LAWRENCE: Unfortunately this isn't always --

MR. PENNEFATHER: No, I realize that it isn't. I'm afraid there has always been, in any field (rest of sentence inaudible).

MR. LAWRENCE: Only I don't share your opinions any more than I did this morning, relating to the field of legislation. We are here to legislate to prevent abuses --

MR. PENNEFATHER: Well, I don't contend with that, Mr. Lawrence. I was only making the point that there is a great danger that if the legislation enacted unduly inhibits the average person, he isn't going to abide by it and you thereby make a habit of infractions.

MR. LAWRENCE: Well, the other question I wanted to ask is about rebates. How do you handle them?

MR. PENNEFATHER: We give a rebate based on the Rule of 78ths which are pro-rata to the way we earn our charge, subject to a minimum retention of $15.00 -- is it $15.00 on automobiles?

MR. INCH: It's $10.00 on an up to $5,000 deal on an automobile.

MR. PENNEFATHER: And if the rebate -- if that's more than half of the rebate, we cut that down?

MR. INCH: Right.

MR. PENNEFATHER: Were you able to follow me there?

MR. LAWRENCE: No.

MR. PENNEFATHER: We use the pro-rata method of rebating. In other words, we rebate on the same way as we earn the charge which is proportionate to the declining balance of the contract, less a charge

of $15.00 flat for the handling of the account.

MR. INCH: No, it's $10.00 up to 5,000. If the account is up to $5,000 the purchase and handling charge is a maximum of $10.00 but not to exceed half the rebate. On appliances, domestic type contracts --

MR. LAWRENCE: There is a minimum charge, in any event, for your handling?

MR. INCH: Right.

MR. LAWRENCE: I see. Do you know if there are any Provinces of Canada that have specific legislation in the rebate field?

THE CHAIRMAN: Mr. Bukator?

MR. BUKATOR: Mr. Chairman, I haven't been convinced that we are going to regulate the interest rate on contracts, as yet. I think maybe the dollar factor is a good point and you make it very well. I also believe that the interest rate is not too hard to compute after two days here. And I might use a little illustration and I don't want you people to think that I am broke, but I just recently bought a new car.

MR. REILLY: You recently what?

MR. BUKATOR: Purchased a new car. Mind you I didn't purchase it apparently, there was no money. (Laughter). However, the car cost me $3,000 and $90.00 for the sales tax, that I didn't go for either. (Laughter). $3,000 was the amount of money and I said to the man, "I don't want the car". It's like the salesman who comes to your door. You just don't convince them too quickly that you are not going to buy the car. So the man said, "It won't cost you too much. With the

finance company that we work with it will cost you" -- what would it cost me for three months? Three months, $3,000? Well, I'll tell you what -- it's about $85.00 and I think he said $9.00 for insurance.

Now, I happened to have a cup of coffee with a banker and he said, "I'll give you the $3,000 and it will cost you $45.00". Now to calculate that through a simple interest it is just 6%. By the same token and by the same calculation my car would have cost me 12% to finance it through the finance company.

MR. REILLY: What made you make the decision? Was it the dollars or the --

MR. BUKATOR: I don't know that I've paid for it yet. I haven't come to that part of the story. (Laughter). But how nice it would have been if the people who were involved said to me, instead of the banker. Naturally he wanted the business. "It will cost you 12% for your loan of $3,000 for the three months." All I'm asking for is the dollar cost and the percentage cost. I don't think it is too difficult to calculate. But I'm not going to change your mind, as I see it in your brief. And rest assured I haven't been convinced to change mine yet either. But I do like your brief because it brings out the other side of the argument.

MR. PENNEFATHER: Thank you, Mr. Bukator.

MR. BUKATOR: I can't say, like Mr. White, that I haven't as yet made up my mind. I'm reminded of a story that I heard of a man who was buried between two wives who both died before him. And when he

was buried he said, "Tilt me a little towards Tillie". (Laughter). I tilt a little bit towards the fact that they should put the interest rate in. (Laughter).

THE CHAIRMAN: Mr. MacDonald?

MR. MacDONALD: Mr. Chairman, I have no questions. I think most of the questions have emerged here. But I am interested in this new thesis that has been introduced here, it really isn't a loan, it's just part of the sale. And on this, sir, I must say you haven't completely convinced me. Because if a man can either go through the arrangements and get credit for which he pays something, or else he can go to the bank and borrow it, it seems to me he is borrowing money in one fashion or another.

MR. PENNEFATHER: He's getting credit.

MR. MacDONALD: Okay, he's getting credit in one fashion or another. Your contention, for example, on page 3, that the granting of credit is only incidental, this ignores another rather interesting factor and this is a growing tendency in some businesses that when you go to buy a product, they are not interested in you paying cash. So that the granting of the credit isn't incidental, the granting of the credit is increasingly becoming the tail that's wagging the dog. They want the --

MR. PENNEDFATHER: Well, Mr. MacDonald, the overall statistics that one can get, which unfortunately are not too all-embracing here accounted, don't really support that contention. The new car field is the only one we have statistics on and there has always

been, as far as I know, less than half of new cars sold through some kind of sales finance operation. At this point it is considerably below that. Now, we have no way of knowing because it isn't necessarily a statistic, what proportion of loans one makes are given solely for the purchase of automobiles. There is, as you perhaps know, in the Bank of Canada Summary, a recent break-out of failures where an automobile is security for a certain proportion of loans to individuals. But this isn't necessarily complete. Mr. Bukator's illustration there, for example, his bank manager lent him $3,000 and he might or might not have been interested in what Mr. Bukator wanted it for. I doubt if that subject of any statistic ever got past his branch, so to speak, particularly in view of the terms. So while a credit merchandising scheme is part and parcel of the merchandising plans of certain individuals, I doubt if, by and large, it could be said a merchant is primarily selling credit. Really he is primarily selling goods.

MR. MacDONALD: Here again I would have to admit that I don't know how widespread it is, but I know in some lines of jewelry this is definitely -- too bad Mr. Letherby isn't here because he earlier said he was quite indignant about some man who read an ad up in his area about getting a car and he went in with the cash, put it down and they weren't even interested in selling him the car.

MR. PENNEFATHER: That would be a very unusual automobile dealer in this day and age where the market is very competitive.

MR. MacDONALD: However, we are arguing a technicality, and this, it seems to me is the point, Mr. Chairman, that we shouldn't forget. After the interest of arguing the technicality, this Committee is interested in the cost of credit and therefore whether the man is borrowing it or whether he is getting it on some sort of instalment fashion or credit or what not, for our purposes our problem is to examine the cost of credit.

MR. PENNEFATHER: That's very true, Mr. MacDonald. That focuses on it very well and I think that we are one on that. My effort has been to suggest to you that the picture becomes very confused when you lump all credit together because it has different basic characteristics and it seems to me that one way to help the Committee get a view of it is to try to portray that there are really two main avenues through which these various grantors of credit work.

MR. MacDONALD: In other words, what you are saying is, when we come to conclusions for recommendation for legislation we might well consider a different conclusion for lenders --

MR. PENNEFATHER: Because the two businesses work in a different framework. As Mr. Sedgwick points out, the matter of the legal interpretation is one thing and there is also the practice. The merchant who is selling goods, whether it be automobiles, white goods or Eatons or Simpsons in their department store operations, they are oriented to the selling of goods and they talk in that language. But the lender is used

to talking in terms of interest. Traditionally, I think, most people understand that if they borrow money they -- what they pay for it is a rate of interest. And it seems to me that might be a helpful way to try to outline this problem to you.

MR. LAWRENCE: Would it fair, or even discriminatory, to attempt to impose some restrictions on some credit deals and not on others?

MR. PENNEFATHER: Well, if you viewed it as a restriction, yes, Mr. Lawrence. I wouldn't speak for the lenders, of course, but frankly I felt that when you ask the bankers --

MR. LAWRENCE: Any legislation is, in a way, is to restrict --

MR. PENNEFATHER: Yes, that is true. I felt that there was one problem that perhaps wasn't touched upon when the banks said that they saw no major problem in this. It seems to me that the difficulty there lies in the fact that when you are dealing with the instalment type of lending, which is usually for smaller amounts and for relatively short terms, the basic out-of-pocket expenses that relate to that deal, which are the same whether it is $100 or $1,000, assume too big a proportion of the smaller balance loan to be properly convertable into an interest rate. This is an area that I can only touch on because we are not dealing with the lending area, but I think that is one thing you might keep in mind.

THE CHAIRMAN: Mr. White?

MR. WHITE: I have just one question.

Mr. J. T. Wood, the Executive Vice-President of Household Finance Corporation suggested to us this morning that all contractual credit obligations be payable in full at the end of the term covered by the contract. Do you think this would be a significant impediment for retail sales in this Province?

MR. PENNEFATHER: I'm not sure that I understand you, Mr. White.

MR. WHITE: Well, eliminate balloons.

MR. PENNEFATHER: Oh, no balloons. Gee, I wouldn't think that would be too serious, would you?

MR. INCH: No, a very, very small proportion of our paper --

MR. WHITE: No problems?

MR. INCH: I don't think so.

MR. WHITE: I understand you to say there is no problem so far as eliminating the Alberta Rule -- I just don't know how to express it?

MR. BRAUN: Deficiency claims?

MR. WHITE: Yes. Eliminating deficiency claims, is that no problem there?

MR. BRAUN: No.

MR. WHITE: Thank you.

THE CHAIRMAN: Mr. Sandercock?

MR. SANDERCOCK: What amazes me is the people who are selling merchandise seem to be more interested in selling it on a credit basis, not for cash anymore.

MR. PENNEFATHER: Well, Mr. Sandercock, part of that arises out of this effort to give the

customer what services he wants within the store. If you were a merchant for example, and let's say you are selling automobiles and you have got an expensive showroom, etc., etc., and John Q walks in your door. You get the deal concluded all down to arranging how he wants to pay for it. You ask him if he wants to pay out of income and he says, "Yes, but I'm going to go and borrow the money". Now you know if you are a salesman that you have got to complete a sale while the prospect's hand is hot and he is anxious to get behind that particular wheel or buy the product, whatever it is. If he goes out the door he may see somebody else whose goods he likes better. He may cool off on the way to the bank or what have you. So the merchant, I think, properly tries to sell him credit plan to the customer while he is in the store.

MR. SANDERCOCK: Does he get a minimum rake-off, these car dealers?

MR. PENNEFATHER: Its' not a rake-off, sir. He makes a profit on anything he sells if he is a good merchant.

MR. SANDERCOCK: No, no, I mean does he make a commission on turning this over to a finance company?

MR. PENNEFATHER: Well, as we have suggested here, sir, he knows what he will sell the paper to his finance company for. Now if he is selling soundly, he will sell those credit services to the public for something more than it costs him to buy them. He wants to do this with his merchandise and everything else

he sells. His service shop labour, for example. He pays his men so much per hour. He must charge his customer more per hour for those services. Similarly he must sell his credit services at more than he pays for them.

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: Well, Mr. Chairman, I don't want to weaken the arguments put forward by Mr. Pennefather. As a matter of fact I am very much impressed. He said everything that I would like to say and said it well. Do you have a legal department?

MR. PENNEFATHER: Here he is right here, sir.

MR. REILLY: Would it be a lawyer who has drawn up this?

MR. PENNEFATHER: Yes, sir.

MR. REILLY: I was just pointing out things that happen between lawyers and between economists. These things happen, eh?

MR. PENNEFATHER: Mr. Reilly, I should say that that is not the result of any one effort of sitting down and write a contract. That is the result of the evolution of events over many, many years.

MR. REILLY: One thing I was wondering about, as far as life insurance policies are concerned. How often do they have to -- what is the rule as far as your Company is concerned as to who has to have a life insurance policy and when?

MR. PENNEFATHER: Well, it's not exactly who has to have. We provide it automatically to the

individual buyer who is 66 years of age or less at the time he buys. Now, obviously you can't life insure a corporate buyer nor do we insure a purchaser which is a partnership or a business enterprise in any sense. But this is a plan that we evolved -- as far as we know we were the first in the field with that back in 1945 -- and we offered it at the time with no increase in the cost of our services at that time. Now of course it is a distinguishable part of our cost but it isn't charged for separately. And the claims paid under that scheme are now running about a million dollars a year.

MR. REILLY: It's a very complete brief, Mr. Chairman. I was wondering if my friend, Mr. Bukator, got $3,000 for the credit or whether he got the money? (Laughter)

MR. BUKATOR: All I know is the car is paid for but I haven't seen any of the dollars. I don't know what did it, whether it was credit or -- you confuse me with that. (Laughter)

THE CHAIRMAN: Are there any other questions?

MR. SEDGWICK: Just one minor thing. I was looking at the very small print. I gather that this contract was revised in May of 1963 and it is the form that you use in Nova Scotia, Ontario and Prince Edward Island. I just wondered if you could let the Committee have copies of the form you use in the other Provinces?

MR. PENNEFATHER: Oh, yes, sir.

MR. IRWIN: Mr. Pennefather, your

colleague suggested that he had made a study of the first 200 contracts that he came across. If it weren't too much trouble I think it might be useful to see these just to evaluate the degree of valuation.

MR. PENNEFATHER: Would you accept our invitation to come and visit us, Mr. Irwin?

MR. IRWIN: Surely.

MR. PENNEFATHER: You can look through them yourself. We would very much like to have you.

MR. IRWIN: You have it ready there, that's all.

MR. PENNEFATHER: Well, it's just work that was flowing through. We bill all out stuff centrally in Montreal and if you would like to come and visit us we would be delighted to show you through or any members of the Committee.

MR. IRWIN: I misunderstood. I thought you had it there.

MR. PENNEFATHER: Oh, no, we just made a manual account of a batch of 200 of them that happened to be there.

MR. IRWIN: What would be the variation in those cases that were not paid out in -- all of the instalments being equal, but there might be an early instalment of more and a last instalment of more. How much would it vary from the equal instalments?

MR. PENNEFATHER: Well, Mr. Irwin, one big element in the irregularities commences with the point Mr. White made earlier, that we automatically allow a spread of 45 days from the date of the purchase

to the date of the first instalment. So it could be 15 days, it could be 17 days or 37 days, or what have you, to suit the convenience ofthe individual buyer who must relate the due date, of course, to a time in the month most convenient for him to pay the payment. Now that would be a big chunk of it, wouldn't it?

MR. INCH: Yes. Actually, as long as the first payment falls within 45 days of the date of the contract, as long as the adjusting instalment, whether it be -- it's usually the final in our case but with some companies it's the first one -- as long as that is not more than double a normal instalment, we would generally consider it to be a regular contract. Now over and above those, where we have skip payments, monthly payments of irregular amounts and so on, we took a two month study and we found that over 18% of our contracts were definitely irregular. In other words --

MR. IRWIN: That's aside from the 45 days?

MR. INCH: Aside from the 45 days on the adjusting instalment.

MR. IRWIN: Well, I'd like a trip to Montreal, but I don't know who would pay for it. (Laughter).

Mr. Chairman, could we ask that you give us a little study of this thing yourselves? I was wondering about the odd payment which equalizes and you have answered that, that it wouldn't be more than double in most cases. And there is the 45 day

lapse and then there is the skips --

MR. PENNEFATHER: Skip payments.

MR. IRWIN: Skipped payments. They would occur in an otherwise orderly contract but it's just that --

MR. INCH: It might be a purchase by a farmer who gets his crops in at a certain time.

MR. IRWIN: I think it would be useful, Mr. Chairman.

THE CHAIRMAN: Yes, if you would supply this --

MR. IRWIN: To give us the knowledge of the type that are far above the norm. Sort of a random selection.

THE CHAIRMAN: Well, we appreciate, Mr. Pennefather, you being with us today and bringing along Mr. Nickel, Mr. Braun and Mr. Inch as the other members of the Committee have expressed. I think your brief is of very high calibre and will be very useful to us in coming to some conclusions.

MR. PENNEFATHER: Thank you very much, sir.

THE CHAIRMAN: Thanks for being with us and coming voluntarily and being so cooperative. We will take a five minute adjournment.

---SHORT RECESS

THE CHAIRMAN: Next we have with us Mr. Joseph S. Land, who is the Vice-President of the Niagara Finance Company Limited and with him is Mr. B. F. Londen, the Assistant Vice-President and Assistant

Service charges on sales financing of consumer durables expressed as the number of dollars and cents per $100 financed per 12 equal monthly instalments.

| | TYPICAL AMOUNT FINANCED | IAC CHARGE TO MERCHANT | TYPICAL MERCHANT CHARGES TO CONSUMERS |
|---|---|---|---|
| New Passenger Cars | $2400 | $ 6.25 | $ 8.65 |
| New Passenger Cars | 2400 | 6.25 | 7.65 |
| New Passenger Cars | 2400 | 6.25 | 7.00 |
| Used Passenger Cars: | | | |
| 1 Year Old | 1700 | 7.40 | 10.65 |
| 2 Years Old | 1400 | 8.25 | 11.75 |
| 3 Years Old | 1100 | 8.25 | 11.75 |
| 4 Years Old | 900 | 9.00 | 13.00 |
| 5 Years Old | 700 | 10.00 | 15.00 |
| Older Models | 500 | 11.50 | 17.00 |
| Domestic Appliances Furniture, Television, etc. | 300 | 9.65 | 9.65 |
| | 300 | 9.65 | 10.65 |
| | 300 | 9.65 | 11.00 |
| | 300 | 9.65 | 12.00 |
| Home Improvements | 800 | 8.00 | 8.90 |
| Mobile Homes | 3000 | 6.75 | 7.50 |
| Boats & Outboard Motors | 800 | 8.10 | 9.00 |

*NOTE: IAC charges to merchants include cost of insurance on lives of consumers for balance owing at date of death. Coverage is for a maximum exposure up to $10,000 on any one individual who was under 66 years of age at the date of purchase.*

*Claims paid by the insurers totalled over $1,000,000 in the 12 month period ended September 30th, 1963.*

2153

4168

APPENDIX IV

**PLEASE PRESS HARD — *You are making 5 copies***

TO PURCHASER: PLEASE READ CONDITIONS ON REVERSE SIDE, CAREFULLY.

# CONDITIONAL SALE CONTRACT

**PURCHASER'S STATEMENT** (A CO-SIGNER MUST COMPLETE A SEPARATE STATEMENT) — FOR I.A.C. USE ONLY

MRS. ☐ MISS ☐ FIRST NAME IN FULL AND INITIAL ← USE BLOCK LETTERS → SURNAME

MAIL ADDRESS (USE BLOCK LETTERS) — COUNTY — CORRESPONDENCE IN: ENGLISH ☐ FRENCH ☐

RESIDENCE ADDRESS (IF DIFFERENT) — HOW LONG — RES. PHONE NO. — AGE — M ☐ S ☐ — NO. OF DEPENDENTS — IF MARRIED WOMAN, HUSBAND'S NAME — HIS AGE

OWN HOME ☐ YES ☐ NO — OR LANDLORD'S NAME AND ADDRESS — PREVIOUS HOME ADDRESS — HOW LONG

EMPLOYED BY — HOW LONG — BUS. PHONE NO. — OCCUPATION - POSITION - NUMBER (IF ANY) — APPROX. MONTHLY INCOME — COMMISSION ☐ SALARY ☐

PREVIOUS EMPLOYMENT — HOW LONG — NAME AND ADDRESS OF BANK — ACCOUNT NO. — HAVE YOU AN I.A.C. CREDIT REFERENCE CARD: YES ☐ NO ☐

LAST CAR BOUGHT FROM — ADDRESS — DATE — FINANCED BY — BALANCE OWING $

NAME AND ADDRESS OF TWO RELATIVES (OR FRIENDS) OTHER THAN HUSBAND OR WIFE: (1) NAME — ADDRESS; (2) NAME — ADDRESS

REFERENCES: NAME OF FIRMS AND FINANCE COMPANIES WITH WHICH YOU ARE DOING OR HAVE DONE BUSINESS ON CREDIT. (IF NONE, GIVE PERSONAL REFERENCES.)

(1) NAME — A/C # — ADDRESS — OPEN ☐ CLOSED ☐

(2) NAME — A/C # — ADDRESS — OPEN ☐ CLOSED ☐

## INSURANCE

COLLISION AND COMPREHENSIVE INSURANCE IS DESIRABLE ON ALL VEHICLES. IT IS REQUIRED WHERE THE UNPAID BALANCE TO BE FINANCED EXCEEDS $300.00. PLEASE CHECK ONE OF THE FOLLOWING SQUARES.

☐ Please include the premium in this contract. A complete application to merit insurance company is attached.

☐ Collision and comprehensive coverage has been procured through ..... (NAME OF AGENT) — POLICY NUMBER

..... (ADDRESS OF AGENT) — (NAME OF INSURANCE COMPANY)

EVIDENCE OF SUCH INSURANCE IS ATTACHED - OR WILL BE PROVIDED SHOWING THAT THE INTERESTS OF PURCHASER, VENDOR/ASSIGNEE ARE PROTECTED.

Vendor hereby sells and Purchaser(s) hereby jointly and severally [illegible] to pay for, subject to the terms and conditions herein and on the reverse hereof, the following goods, delivery and acceptance of which in good condition [illegible] as offered is hereby acknowledged by Purchaser(s).

| | YEAR | NEW OR USED | MAKE - TRADE NAME | BODY TYPE IF TRUCK GIVE CAPACITY | MODEL NO. OR LETTER | SERIAL NUMBER | MOTOR NUMBER | LICENCE NO. |
|---|---|---|---|---|---|---|---|---|
| ONE | | | | | | | | |

CASH PRICE (INCLUDING ALL TAXES) ..... $

Add — LICENSE FEE AND EXTRA EQUIPMENT (describe) ..... $

TOTAL DELIVERED PRICE ..... $

DEDUCT:
- TRADE IN (..... (describe) ) $
- LESS-OWING TO: [ ] $
- EQUITY ..... $
- ADD CASH PAYMENT ..... $ ..... $

UNPAID BALANCE $

Add—INSURANCE PREMIUM (indicate coverage below) ..... $

AMOUNT FINANCED ..... $

Add—FINANCE CHARGE FOR ..... MONTHS TERM — CHART NUMBER — $

RECORDING CHARGE ..... $ 1.00

TOTAL DEFERRED PAYMENTS ..... $

(ONTARIO SALES TAX INCLUDED ABOVE) ..... $

Said Total Deferred Payments are payable at the office of Industrial Acceptance Corporation Limited at ....., in monthly instalments of $..... on the same day of each successive month and commencing on the ..... day of ..... (CONVENIENT DATE WITHIN 45 DAYS) 19 ..... the final instalment being for the amount remaining unpaid; OR in instalments as set out in the Schedule of Payments hereunder; with interest thereon after maturity at the rate of 12% per annum. A negotiable promissory note has been given by Purchaser to Vendor as evidence of, but not in payment for, said Total Deferred Payments.

THIS SPACE TO BE USED ONLY FOR OTHER THAN EQUAL MONTHLY PAYMENTS

SCHEDULE OF PAYMENTS

| PYM'T NO. | AMOUNT | DATE DUE | PYM'T NO. | AMOUNT | DATE DUE |
|---|---|---|---|---|---|
| | $ | | | $ | |
| | $ | | | $ | |
| | $ | | | $ | |

It is agreed and declared that the terms and conditions set forth on the reverse hereof are part of this contract and binding upon the parties hereto. The Purchaser acknowledges receipt from Vendor of a true copy of this agreement. The value placed on the trade-in has been determined by the parties acting in good faith. This contract is hereby accepted by Vendor and assigned by Vendor to Industrial Acceptance Corporation Limited in accordance with the "Vendor's Assignment" on the reverse hereof.

SIGNED IN DUPLICATE at ..... (Place where contract actually signed) on ..... (Date) 19 .....

(Vendor sign Trade Name here) _____ (Purchaser sign here) _____

By ..... (Signature and Title of Authorized Official) (Co-Signer) _____

3003211-REV. 5/63 — C.N.-7-NS-ONT. P.E.I.

| BRANCH | DEALER | ACCOUNT NUMBER |
|---|---|---|
| | | |

NEGOTIABLE INSTRUMENT

Only use this space for other than equal monthly instalments

SCHEDULE OF PAYMENTS

$ ..... At ..... (PLACE WHERE NOTE ACTUALLY SIGNED) Date ..... 19 .....

FOR VALUE RECEIVED I promise to pay to the order of:

..... (VENDOR'S NAME HERE)

the sum of ..... /100 DOLLARS

at the office of INDUSTRIAL ACCEPTANCE CORPORATION LIMITED in the city of .....,

in monthly instalments of $ ..... each on the same day of each successive month, the first instalment to be payable ..... 19 ... the final instalment to be the amount remaining unpaid; OR in instalments as set out in the Schedule of Payments herein. Each instalment, if unpaid at maturity, shall bear interest at the rate of TWELVE PER CENT, per annum, from the date of maturity and upon default in payment of any instalment upon the due date thereof all remaining instalments shall forthwith become due and payable without notice.

Purchaser sign here _____

(Co-Signer) _____

## CONDITIONS OF SALE CONTRACT

**The following terms and conditions are part of the contract set forth on the reverse side hereof and are binding upon the parties ther**

1. Title to, property in and ownership of said goods shall remain in Vendor at Purchaser's risk until all amounts due hereunder, or any renewals or extensions hereof or of said note, or under any judgment secured, are paid in cash. Purchaser agrees to be liable for all loss or damage to said goods, however caused, and assumes all of the obligations and risks of an absolute owner and agrees to indemnify and save harmless Vendor and Vendor's assigns from any and all loss or claim for loss or damage to persons or property caused by reason of the ownership, use or operation of said goods.

2. Purchaser shall not dispose of said goods, use said goods, illegally or improperly or for hire and shall disclose the exact location of same and permit Vendor to examine same upon request; and shall properly house and keep in good repair said goods free of all liens and charges. Vendor may at his option pay any repair lien or other charge and add the amount thereof to the balance outstanding hereunder and the amount so paid shall become due and payable forthwith.

3. Purchaser shall insure and keep insured said goods against the risks of fire, theft and collision, with loss payable to Industrial Acceptance Corporation Limited. If an insurance premium is included in the total deferred payments Vendor's obligation shall be limited to the transmission of the Purchaser's application for insurance to the regular insurers of Industrial Acceptance Corporation Limited, and to giving credit to Purchaser for any remaining part of the insurance premium if the risk is refused in whole or in part by said insurers. If no insurance premium is included in the total deferred payments Purchaser shall furnish to Industrial Acceptance Corporation Limited, within two days of the present date, a certified copy of a policy of insurance covering said goods against said risks; if said risk is refused in whole or in part by the insurers of said Corporation or any policy covering said risks is cancelled after having been in effect, Purchaser shall furnish to said Corporation a certified copy of a policy of insurance covering said risks within two days of notice of said refusal or of said cancellation, as the case may be. Purchaser shall also furnish to said Corporation a certificate of renewal of said insurance at least ten days before the expiry of any policy. Should Purchaser fail to keep said goods so insured and to furnish evidence thereof, Vendor or said Corporation may, at their option, insure said goods and add the premium to the amount remaining outstanding hereunder and the full amount remaining outstanding hereunder shall immediately become due and payable, whether or not Vendor or said Corporation have so insured said goods. Purchaser hereby authorizes his insurers to pay Industrial Acceptance Corporation Limited the proceeds of any insurance on said goods and all return premiums, and does hereby assign and transfer to said Corporation all such proceeds and return premiums, and any payments so made to said Corporation may be applied to the repair of said goods or to the balance remaining unpaid hereunder at the option of said Corporation.

4. Time is of the essence of this agreement and if Purchaser defaults hereunder or violates any term hereof or goes into bankruptcy or if said goods be substantially damaged or destroyed or seized under any judicial process or for rent or confiscated or if Vendor or his assigns feel unsafe or insecure, all remaining instalments shall, without notice, become due and payable and Vendor may forthwith take possession of said goods and for such purposes may enter premises without notice or demand and without legal process.

5. If said goods come into the possession of Vendor through repossession, voluntary surrender thereof by Purchaser, or otherwise, all payments previously made shall remain the property of Vendor as liquidated damages and not as a penalty and Vendor may house or store said goods and repair or re-condition the same and resell the same in such manner and for such amount and upon terms as Vendor deems proper and Vendor may be a purchaser at such sale; upon such sale Vendor may accept other goods as part payment of the sale price, but the undersigned Purchaser shall be entitled to be credited only with the actual proceeds when realized and received in cash through the sale of such trade-in after deduction of all expenses, charges and commissions in connection with said goods and in connection with the repairing and re-sale of such trade-in. Purchaser shall be liable for any deficiency. Any surplus shall be repaid to Purchaser. Purchaser waives all claims for damages arising out of the repossession, removal or resale of said goods.

6. All rights and remedies hereunder are cumulative and not alternative. Purchaser warrants that the information given in the "Purchaser's Statement" is true and was given to Vendor to induce Vendor to enter into this contract. In this agreement "goods" shall mean the goods above described and all equipment, attachments, accessories, replacements and repairs which may be placed upon or added to said goods.

7. Purchaser takes notice that this agreement, together with Vendor's title to, property in and ownership of said goods and said note are to be forthwith assigned and negotiated by Vendor to Industrial Acceptance Corporation Limited, and that said Corporation shall be entitled to all of the rights of Vendor free from all equities existing between Vendor and Purchaser. Purchaser hereby accepts notice of such transfer and further accepts notice that Vendor is not an agent of said Corporation for any purpose and that said Corporation will accept no evidence of payment other than its official receipt. If this contract or said note is placed in the hands of a solicitor to enforce any right thereunder, there shall be added to the outstanding balance 15% of such balance, payable forthwith, to compensate for increased administrative costs.

8. Purchaser acknowledges that this agreement constitutes the entire contract and that there are no representations, warranties, or conditions, expressed or implied, statutory or otherwise, other than as contained herein. Without limiting the generality of the foregoing. Purchaser agrees that there is no warranty as to the "Year Model" even if stated herein.

9. Save as aforesaid, this agreement shall apply to, enure to the benefit of, and bind the heirs, executors, administrators, successors and assigns of the Purchaser and Vendor.

## VENDOR'S ASSIGNMENT

FOR VALUE RECEIVED Vendor does hereby sell, assign and transfer to Industrial Acceptance Corporation Limited his right, title and interest in and to the within contract and promissory note therein referred to. Vendor does also hereby sell to said Corporation the goods referred to in the within contract, subject to the rights of the Purchaser as set out therein.

Vendor warrants that said goods are completely and accurately described in said contract and that they are new and unused (unless otherwise stated in said contract) and that the portion of the down payment described as cash was in fact paid by Purchaser in cash and not its equivalent and that no part thereof was loaned to Purchaser by Vendor.

Vendor guarantees the performance of said contract and jointly and severally with Purchaser agrees to pay the Corporation on demand the entire amount unpaid under said note and/or contract and any deficiency arising out of the repossession and resale of said goods as provided therein. Vendor agrees that his liability hereunder shall not be affected by any settlement, extension of credit or variation of terms of said contract, nor additional security taken by the Corporation, nor by any negligence on the part of the Corporation in asserting its rights, nor by reason of any loss, depreciation of or damage to said goods, nor any omission in filling or recording said contract or any renewal thereof, nor the termination for any cause whatsoever of any right of the Corporation against Purchaser and that nothing but full payment in cash to the Corporation of the amount owing by Purchaser shall release Vendor from his liability hereunder.

If said goods be repossessed Vendor agrees to store same safely for the account of said Corporation without charge and Vendor agrees not to sell or use said goods except upon written instructions from the Corporation. In the event of resale, all monies, goods and securities paid or delivered on such resale shall be the property of said Corporation and Vendor shall hold same in trust at Vendor's risk and shall promptly pay over and deliver same to the Corporation.

Upon payment by Vendor to Industrial Acceptance Corporation Limited of the amount secured by the within contract, the within contract and all of the right, title and interest of Industrial Acceptance Corporation Limited in and to the said contract and the property therein described shall be forthwith automatically reassigned to Vendor without the necessity of any formal or other assignment being executed and delivered by the Industrial Acceptance Corporation Limited.

General Manager. We all have a copy of the brief and you can proceed with reading your brief, if you would, Mr. Land.

MR. LAND: Thank you, Mr. Chairman and gentlemen.

"Niagara Finance Company Limited is a member of the Canadian Consumer Loan Association and as such does not have any divergence of view with the submission presented by that body on behalf of its members. It is recognized, however, that trade associations in speaking for their members, must use a common denominator in order to present a broadly representative picture.

"Niagara is the largest Canadian-owned lender licensed under the Small Loans Act. It is felt that its views may be, therefore, of interest to the Select Committee in this current study.

HISTORY OF THE COMPANY

"Niagara was established as a partnership February 7, 1927 and was incorporated by Letters Patent of the Province of Ontario on February 13, 1930. It was founded by the late Louis Blake Duff, at one time editor and publisher of the Welland Tribune and well known as an historian and speaker. As late as 1946 the operations of the Company were local in character, and were carried on from a single office in Welland, Ontario.

"In 1947 other Canadian shareholders invested a substantial amount of capital in the Company, and since that time additional capital has been added

from time to time as expansion required.

"Today Niagara Finance Company Limited operates 238 branches. It has offices in all of the Canadian provinces, the Yukon Territory and four branches in England. As at September 30, 1963 the Company's assets were in excess of $111,000,000. and it had over 200,000 customers' open accounts. Loan balances outstanding in the 73 branches located in the Province of Ontario totalled $36,000,000. at the end of last year. 215 people are employed in this province.

"Niagara makes cash loans to individuals and small businesses on the security of chattels, such as automobiles, business and farm equipment and household effects and without tangible security on promissory notes. A relatively inconsequential percentage of its assets, 0.51% at December 31, 1962, consists of business on conditional sale contracts.

"Excluding business in the United Kingdom and other advances which could not rightly be described as small loans or consumer loans within the usual meanings of these terms, loan balances outstanding totalled $110,956,388 at September 30th, 1963, of which 67% represented balances of loans subject to the provisions of the Small Loans Act. The remaining 33% consisted of balances of loans which, when arranged, were in excess of $1,500. and therefore did not fall within the purview of the Act.

"At the end of this submission will be found, in appendix form, the results of a survey of a cross-section of Niagara's loans, both large and small,

taken in 49 branch offices selected at random across the country.

"From Table #1 it will be seen that the majority of our customers are skilled workers in the trades and in service industries, with a substantial percentage engaged in individual enterprise, clerical, supervisory, professional and managerial pursuits. Less than 9% are in the unskilled category.

"Table#2 shows that over 75% of Niagara's customers earn between $2,400.and $6,000. per annum. Over 13% earn more than $6,000. per annum.

Table #3 indicates that the vast majority are in the age group 29 to 49 years - nearly 77%, in fact. While it is not shown in these tables, 77% of Niagara's customers are married. It may thus be concluded that Niagara's typical customer is a mature individual, gainfully employed in a skilled capacity at a wage or salary rate which permits him to meet his obligations.

Table #4 analyses the purposes for which loans were made. The consolidation of existing debts is the single most important reason, closely followed by automobile purchase and repairs. It is readily apparent in reading down the list of other purposes that these are of sound and constructive nature.

"Niagara will not, as a matter of policy, make loans for frivolous purposes nor will it knowingly advance money in those cases where it will not solve a problem or fulfill a sensible function.

"The need for credit of the kind

supplied by companies such as Niagara is more apparent in Canada than perhaps in any other country on this continent. Due to the marked seasonal variations in employment and to the seasonal needs of many of Canada's most important industries such as agriculture, fishing, mining and lumbering, the self-employed and other persons are frequently in need of funds which might not otherwise be available to them.

"Niagara makes small loans at the rates permitted licensees under the Small Loans Act.

"All too frequently well-intentioned but ill-informed people refer to loan company rates as 24% per annum. This is only partially true and like most half-truths is misleading.

"Maximum rates under the small Loans Act are:"--

I beg the indulgence of the Committee to the extent that this is repititious, but I did not know what the other companies were saying when I composed this brief.

"2% per month on any part of the unpaid principal balance not exceeding $300. 1% per month on any part of the unpaid principal balance exceeding $300 but not exceeding $1,000. ⅔% per month on any remainder of the unpaid principal balance exceeding $1,000 but not exceeding $1,500.

"It should be emphasized that these rates are not defined in the Act as interest, but as Cost of Loan and are all-inclusive, with no additional charges of any kind permitted.

"The effect of the "steps down" in the rate may be seen in the following examples:
On a loan of $500, the average rate is 1.81% per month or 21.72% per annum.
On a loan of $1,000, the average rate is 1.47% per month or 17.64% per annum.
On a loan of $1,500, the average rate is 1.27% per month or 15.24% per annum.

"Moreoever, the percentages shown are not charged in advance and are applied to declining balances. This means that the lender of $1,500 at 15.24% per annum receives a gross revenue of $8.44 per $100 of the loan per annum, a substantial difference from the 24% per annum so commonly assumed.

"To the best of our knowledge the maximum rates permitted under the Canadian Small Loans Act are lower than those stipulated in any other effective small loans legislation anywhere on the continent." And I might add, in fact, in the world.

"Niagara also makes larger loans which do not fall within the scope of the Small Loans Act. These loans involve different considerations since many are, in reality, small business loans or loans for the purchase of durables, chiefly used automobiles, business equipment and so forth. Debt consolidation, a big factor in the small loans business, is much less important in the larger transactions. Persons who qualify for these larger amounts enjoy a bargaining position frequently lacking in the case of small sum borrowers.

"Such loans are usually made at a discount rate of 9% per annum.

"More and more attention is being directed these days to the extent of consumer debt in Canada. Many people have expressed concern, even to the point of suggesting that credit is too easily available and proposing that various legislative controls be imposed.

"Not infrequently, however, such critics are influenced by particular cases which have come to their attention. It is difficult to remain objective in outlook when one sees only examples of the misuse of credit. Unquestionably, some individuals and families do over-extend themselves and, as a result, run into financial difficulties. These people are, however, the exceptions and should not provide a basis for the indictment of credit users and credit grantors in general. No thinking person would advocate the banning or limiting of automobiles because some irresponsibles misuse them and cause highway deaths.

"The following chart, on page 5, indicates the dollar growth in consumer credit between 1949 and year-end 1962, along with a comparison of the relative percentage of the total held by the various agencies extending such credit.

"It will be noted that the Chartered Banks' personal instalment loans increased by 281% from year-end 1957 to year-end 1962. As the result, this segment of the total of all consumer credit increased from 12.8% to 23.0% in the same period.

CONSUMER CREDIT OUTSTANDING - DECEMBER 31

| | Millions of Dollars | | | % of Total | | |
|---|---|---|---|---|---|---|
| | 1949 | 1957 | 1962 | 1949 | 1957 | 1962 |
| **Purchase Credit** | | | | | | |
| A. Instalment Credit | | | | | | |
| Sales Finance Co's | 116 | 780 | 771 | 9.7 | 23.7 | 15.0 |
| *Retail Dealers | 161 | 480 | 608 | 13.5 | 14.6 | 11.8 |
| Small Loan Companies | - | 15 | 45 | - | .4 | .9 |
| | 277 | 1275 | 1424 | 23.2 | 38.7 | 27.7 |
| B. Single Payment Credit | | | | | | |
| *Retail Dealers | 228 | 346 | 431 | 19.1 | 10.5 | 8.3 |
| Oil Company Credit Cards | NA | 32 | 49 | - | 1.0 | 1.0 |
| | 228 | 378 | 480 | 19.1 | 11.5 | 9.3 |
| Total Purchase Credit | 505 | 1653 | 1904 | 42.3 | 50.2 | 37.0 |
| **Loan Credit** | | | | | | |
| A. Instalment Credit | | | | | | |
| Small Loan Companies | 77 | 347 | 644 | 6.4 | 10.5 | 12.5 |
| Credit Unions | 63 | 258 | 575 | 5.3 | 7.8 | 11.2 |
| Chartered Banks - Home Impr. | - | 48 | 70 | | 1.5 | 1.4 |
| - Other Personal Loans | 173 | 421 | 1183 | 14.5 | 12.8 | 23.0 |
| | 313 | 1074 | 2472 | 26.2 | 32.6 | 48.1 |
| B. Single Payment Credit | | | | | | |
| Life Ins. Co. Policy Loans | 167 | 295 | 372 | 14.0 | 9.0 | 7.2 |
| Quebec Savings Banks | 4 | 13 | 27 | .3 | .4 | .5 |
| Chartered Banks Secured Pers.Loans | 206 | 257 | 372 | 17.2 | 7.8 | 7.2 |
| | 377 | 565 | 771 | 31.5 | 17.2 | 14.9 |
| Total Loan Credit | 690 | 1639 | 3243 | 57.7 | 49.8 | 63.0 |
| Total Consumer Credit | 1195 | 3292 | 5147 | 100.0 | 100.0 | 100.0 |

* Retail Dealers include Department Stores. Since 1959 both instalment credit and single payment credit for Department Stores are reported as one total because of "all purpose" credit plans now in use. The division in 1962 has been estimated using the proportion of charge accounts to total Department Store receivables when last reported at December 31, 1959.

SOURCE: BANK OF CANADA STATISTICAL SUMMARY

"The instalment loans of Credit Unions increased by 223% from year-end 1957 to year-end 1962 and the percentage of total consumer credit held by these organizations increased from 7.8% to 11.2%.

"The receivables of small loan companies increased by 186% between December 31, 1957 and December 31, 1962 which resulted in the share of consumer credit held by these companies growing from 10.5% to 12.5% during the five years.

"Thus, while all three principal sources of consumer loans enjoyed substantial growth during the period, Chartered Banks and Credit Unions far outpaced the small loans companies in extending credit.

"Another noteworthy fact which the chart highlights is that "purchase credit", that is the total owing by consumers to sales finance companies on durables and to retail dealers, has actually declined during the past five years, as a percentage of total consumer credit outstanding."

In passing, Mr. Chairman, I would like to point out to the Committee that there are some points of dissimilarity between the figures in our Chart on page 5 and those charts which have been produced by witnesses previously. This does not mean that the other charts or our chart, one or the other, are wrong. It simply means that we have included in consumer credit various factors which we considered to be rightly consumer credit, which was not included in some of the other charts. Notably, oil company credit

card credit, home improvement loans, life insurance policy loans, etc.

"It is quite true that consumer credit has expanded in the post-war years but it must be recognized that attitudes towrads credit in general have undergone change. Not only the consumer but government and business today borrow to a much greater extent than formerly.

"The Canadian consumer in the pre-war period was obliged to save for a rainy day; to provide for possible unemployment, accident, illness and other misfortunes. Today the average Canadian enjoys the security of unemployment insurance, a guaranteed annual wage, group health and hospitalization plans, a pension plan and so forth. As the result he has confidence in the future and is not afraid to commit himself to the making of payments. We live in a period of rising incomes and rising standards of living.

"It should be recognized too, that since the last war, rapid family formations have resulted in increased demand for housing, the rapid growth of suburbs and increased purchasing of many durable goods, frequently on credit.

"Consumer credit, wisely used, is socially desirable. The washing machine purchased on terms replaces laundry bills. The television set replaces other more expensive forms of entertainment. Such durables remain concrete assets of the family long after all payments have been made. In paying for them on terms the purchaser is disciplined in handling his

money. With no payments to make the money might well be spent otherwise to lesser advantage. How many people would own their homes today if it were necessary to save up $10,000, $15,000 or $20,000 to pay cash in buying?

"With respect to suggestions that controls be imposed on the use of consumer credit, a logical question is who is to determine how much credit is enough or too much? Who is going to dictate how a worker spend his money? If he is willing to forego other things to make payments on a car who is to tell him that he cannot? Spending patterns vary from province to province and from city to city. There are more automobiles per capita in Ontario than there are in Quebec. Who can say whether that is good, bad or is it as it should be?

It is our opinion that many people underestimate the common sense and responsibility of the average Canadian consumer. He will not use credit when he cannot see his way clear towards meeting his obligations. The record of the depression years shows this. Contrary to popular belief demand for loans increases in good times and falls off in bad.

If it is true that some purveyors of credit make it too easily available to those who already have enough to handle, they will soon learn that collection costs and losses will wipe out any profit so generated, and will be faced with the choice of tightening up or putting themselves out of business.

"Niagara policy is to make loans in

amounts well within the borrower's capacity to pay. Each application is carefully studied with special attention to obligations already existing, family overhead, and the amount and stability of disposable income. We believe that if each transaction is sound, then the total of credit outstanding is sound. The overall ratio of consumer credit to disposable income is a useful figure only if examined in conjunction with many other factors, including total savings, the increase in personal assets, wage trends, etc.

REMARKS ON DISCLOSURE OF THE COST OF CREDIT

"Niagara, as a Licensee under the Small Loans Act, is required to disclose its charges as a percentage per month, applied on a declining balance. On its large loans the total of all costs are shown in dollar figures.

"It is in complete agreement with those who feel that users of credit, whether it be cash credit or purchase credit, should be completely aware of the cost of such accommodation. It does seem, however, that proponents of one system for doing this, as opposed to another, frequently approach the matter too emotionally to be completely objective.

"The comments which follow reflect Niagara's thinking on cost disclosure on consumer credit in general.

"It must be recognized at the outset that the cost of credit cannot be defined as "interest". Actually the latter is only a single component of such cost. In addition to the obvious internal expense related

to the opening, bookkeeping, servicing and collecting of accounts, in many credit transactions the grantor is exposed to actual out-of-pocket expense. A credit bureau report commonly costs from 75¢ to $1. A search at a registry office for liens and judgments may cost 50¢ to $1. Registration of a chattel mortgage involves a fee of $1. to $1.50 with an additional amount of 50¢ to $1. payable to a commissioner for taking oaths in connection with the necessary affidavits. In addition, various large sales finance and loan companies and groups of companies maintain, at their own expense, central reference bureaus in an effort to ensure the orderly granting of credit by avoiding duplication and possible overloading. We respectfully submit that the major components of the cost of credit, therefore, are for service, out-of-pocket expense and risk, rather than forebearance. The lumping of all components into a single annual percentage might confuse rather than clarify the situation.

"The oversimplification involved in stating credit charges in terms of annual interest leads to the absurdities which sometimes appear in headlines. A credit sale for $100 might well cost a department store $6.00 or more to process, including the cost of a credit report, a credit interviewer's time, the drawing up of a sales contract, the opening of a ledger account and so forth. Then the purchaser might elect to pay this account off in a month. If he is charged 1% for the accommodation, the store collects $1. and is out of pocket $5. If it tried to recover its actual expense of $1., it could be

accused of charging the extortionate rate of 72% per annum.

"Customers frequently vary the terms during the course of an instalment contract. Some payments are made late. At times monthly remittances are missed entirely and made up later. Some accounts are prepaid. Frequently additional credit is sought while a balance of the original debt remains unpaid.

"For some types of consumer credit the information necessary to convert the finance charge into a simple annual percentage is not readily available when the transaction occurs. Considerable use is made of irregular payment plans or seasonal payment plans tailored to the income flow of farmers, seasonal workers and others whose income is received irregularly.

"Calculations of credit charges on a simple annual percentage basis under such circumstances become extremely complicated, probably beyond the capacity of all but the largest organizations in the consumer credit field.

"Even the relatively simple process of converting an "add-on" or "discount" charge to an actuarial annual rate of return can be confusing to those whose knowledge of percentages is limited since the rate of return will vary with the term of the contract. The same return will not be produced by a 12 month contract as a 24 month contract, for example, despite the fact that the finance rate might remain the same.

"Some people advocate the uniform expression of credit charges in dollars per $100 of credit

extended. This plan is far from new. It was inaugurated by a major sales finance company in the United States about 28 years ago. After a trial period, the practice was abandoned by the company under pressure from the authorities and Better Business Bureaus. It was considered misleading to the public in that many people interpreted $6. per $100. per annum as 6%, when it was, in fact, 10.9% to 11% per annum, depending upon the term of the contract.

"On simple term transactions where multiple instalments are not involved, and on property mortgage transactions where repayment is amortized over lengthy periods, a simple per annum percentage is the most satisfactory.

"It does seem that the most practical approach on other types of credit transactions is to require that purchasers be given all details in dollars including a) the regular cash selling price, b) the amount and medium of the initial payment if any, c) the balance remaining, d) the charge in dollars for the privilege of purchasing on time, e) the number and amount of payments to be met and f) a breakdown of any other costs and fees involved such as insurance charges and recording and filing fees, and the penalty in case of delinquency.

"With these facts available, the Canadian consumer can be depended upon to use good sense in arriving at a decision.

"Niagara is in favour of full disclosure of the cost of credit but urges that careful thought be

given to the complexities involved in this subject. We would also urge that any requirements concerning disclosure encompass all grantors of credit, including those which accept deposits from the public. Banks and Credit Unions, for example, frequently make loans to those who have money on deposit with them. Such deposits must be taken into consideration in arriving at the amount of money actually borrowed. A borrower from a bank, who maintains a savings balance at the same time, might be considered to be to some extent, borrowing his own money. A credit union member who has savings in the organization, either in the form of shares or deposits, while paying on a loan there, is in the same position.

"This fact materially affects the true interest being paid, since loan interest is usually materially higher than interest paid on savings or patronage dividends declared by a credit union."

And then we come to the various tables. There will be found some difference in the percentages between the Appendix Tables in Niagara's submission and that of the Consumer Loan Association and the Household Finance and others, for the very good reason that customers indicated here are strictly Niagara customers and perhaps the classifications differ somewhat in the case of occupation, so we have defined what we mean in these various occupational classifications.

THE CHAIRMAN: Mr. Sedgwick, do you have any questions?

MR. SEDGWICK: I have only one. Mr. Land, what you say, while very well said, has all been

MR. LAND: This I know, sir, yes.

MR. SEDGWICK: What securities do you take, just promissory notes?

MR. LAND: We take, as indicated on the first page, actually, Mr. Sedgwick, we take in some instances automobiles, in other instances business or farm equipment, on some occasions household effects, on some occasions nothing but a note. This would depend entirely on the amount of the loan, the qualifications of the customer, how certain we were that he might look after his obligation without having to require any type of collateral or security.

MR. SEDGWICK: You don't take wage assignments?

MR. LAND: No, sir, only in very rare cases where the alternative to not take a wage assignment might have to be some form of garnishment procedure. In other words, it would only be --

MR. SEDGWICK: That would be default then?

MR. LAND: That is right. We do not make loans on wage assignments.

MR. SEDGWICK: Then at the bottom of page 3 you say that "such loans are usually made at a discount rate of 9%". I'm aware, of course, that the true rate, the actuarial rate, depends on other factors, including the term, but speaking generally, do you know what it works out as?

MR. LAND: Yes, sir, at 12 months it works out at 17.78%. At 24 months it works out at 19.83%.

And at 36 months it works out at 21.73%.

MR. SEDGWICK: And on page 7, where you speak of the cost of the loan. That, of course, is true, and I suppose you have in mind that if I am a lender and tried to lend my money to the government, I could be in considerable trouble in clipping the coupon.

MR. LAND: That is right, sir.

MR. SEDGWICK: Whereas in your type of lending you have all this bookkeeping and service and so on, which really has to come off before the interest you get for the forebearance.

MR. LAND: That is right, sir.

MR. SEDGWICK: That's all for me, thank you.

THE CHAIRMAN: Mr. Irwin?

MR. IRWIN: Well, Mr. Chairman and Mr. Land, I feel the same as Mr. Sedgwick. With no disrespect to your brief, but we have thrashed over a lot of these points before and perhaps it may be boring to do so again. There is one new -- well, not entirely new -- but restated very well -- on page 8, this problem of the small amount of credit being borrowed and the high cost relative to that small amount of opening the account and servicing that account. Undoubtedly, as you point out, if one wants to be exact about it, it could amount to 72% per annum in certain cases. So I am going to make a very heretical suggestion and say that this fascinates me, that when we come to -- inquire into -- lending situations and lending businesses, that they have advanced the

technique of cost accounting to a very fine degree, more so than you would perhaps find in industry generally. I can't dispute what you say, it's just that a reatiler, for example, selling a $5.00 appliance, if he costed out that fine would probably find that proportionately to the selling price,his costs were exhorbitant. I wonder if it is a valid objection to take your accounting that far? If one is selling eggs or appliances -- at least it has been my experience -- you look at the whole package and say my costs are, my components are, a percentage of the total sale, not of one particular item.

MR. LAND: You are quite right, Mr. Irwin. The only thing -- the point I was trying to make here was -- this paragraph immediately follows the paragraph which dealt with the various components of credit and I am only seeking to point out here -- this is an exaggeration, not on my part -- such instances have actually received publicity. So while it is an exaggerated thing, I put it in here for the purpose of calling to the attention of the Committee respectfully, that there are other components besides interest. If we dealt with this on a strict interest basis, it would be ridiculous. But I'm sure that any person with a knowledge of the basic procedures of credit granting would concede that it probably costs $5.00 or $6.00 -- it might be $4.00 -- for a Company to open, initially, a charge account, let's say. So this was the point I was trying to make rather than saying that there should be some other standard employed.

MR. IRWIN: Yes, I agree with the point

you are making. It's made very well. It's just that I think it indicates a degree of cost accounting which isn't applicable in any other field except, apparently, the lending of money.

MR. LAND: Well, I can't speak for -- I've been in this business too long to know much about others, Mr. Irwin, but speaking on behalf of our own Company, costs are a very significant part of my own responsibility as General Manager of the Company and certainly I think that is true of our industry. Now just to what extent other companies carry their cost accounting, I don't know.

MR. IRWIN: I'm not trying to argue the point, I'm just trying to make the point that you could carry cost accounting in any situation down to that level, where you knew exactly how much it was costing you to sell a $5.00 appliance as opposed to a $500.00 appliance. Generally speaking there is a cut-off at some point at which you say all the rest is overhead and we will spread this on a percentage of dollars. Whereas here you are suggesting that the accounting is carried to the point where you know the actual cost of granting that particular loan.

MR. LAND: Yes.

THE CHAIRMAN: Mr. Bukator?

MR. BUKATOR: Yes, I'd like to comment on this brief simply because I knew the founder of this Company personally, Louis Blake Duff. He was not only a great historian but a great asset to the County of London. He was a man who used his own reasoning when it

comes to lending money. You say it started out with one company in 1930 --

MR. LAND: 1927 it was a partnership.

MR. BUKATOR: And now you have 238 branches and four of them in England. It's a fantastic growth. As I said before, I knew Louis Blake Duff personally. He had a very small office with a lot of very historic objects in his office. He liked to think he was the, I believe, the editor of the, the original editor of the Welland paper.

MR. LAND: I believe he was, Mr. Bukator.

MR. BUKATOR: I recall going into his office one time before I was too well known and I needed a little bit of money. Now I am boasting. He said, "If you pay me this $10.00 a week" -- I was doing other business with him -- "I'll let you have this amount of money with no interest at all". This is the way the man operated, down to earth and he established a good business. I like the attitude that you do believe and I am sure he would be happy to know about this, that you do believe in complete disclosure on a long term proposition rather than the small items of sale. Possibly Louis made it up with someone else, but I doubt it. He was a very honest man.

MR. IRWIN: Maybe you could get your $3,000 -- (Laughter)

MR. BUKATOR: If Louis was alive today I think I could get more than that. As a matter of fact I didn't finish that story of the automobile, if you

don't mind, Mr. Chairman. To complete the transaction, I sent the cheque on and I got a receipt back and on the written portion of the cheque it said, "Received from" -- myself -- "$30,090.00". Now, I don't know whether I can sue them for the $27,000 change or not, Mr. Sedgwick. (Laughter)

MR. SEDGWICK: It's too bad Mr. Lawrence is gone. (Laughter)

MR. BUKATOR: Well, anyhow, I have a receipt for $30,090.00 for one automobile. But, as far as your brief is concerned, I want to say, like the others have said, that we have covered a lot of the same ground as in your brief, etc. You do suggest that disclosure is something that you would not object to?

MR. LAND: That is right, sir.

THE CHAIRMAN: Mr. MacDonald?

MR. LAND: I might mention that our operating headquarters are in Montreal even though our legal head office is in Toronto and this brief was composed in Montreal and naturally we didn't have reference to the submissions of others who might be located here, so that there is a degree of repetition. It was unavoidable under the circumstances.

THE CHAIRMAN: Mr. White?

MR. WHITE: I gather from your brief you are against this idea of putting the effective rate of interest in the contract? Which of the two categories do you fall into? That it is possible but useless or the category that is impossible and useless?

MR. LAND: Well, Mr. White, I would say

that there are few things that I would concede to be impossible in business. We are blessed with facilities which enable us to do almost anything given the time to do it. I think it would be possible for us to do what you suggest, but basically the position that Niagara is taking, which I am expressing, is that the significance of the percentage might well be lost in many instances. I think one point which perhaps has not been brought out by the people who preceded me here is this: In the case of those loans made under the Small Loans Act, the Act has various provisions and among its provisions we find that loans must be repayable in approximately equal monthly instalments. This is a requirement. So that when we say it's simple enough to disclose the cost per annum on a loan, it is simple enough. It's as simple as anything could be because it's a regular contract and under the Act it has to be spread over a period of time not exceeding 30 months, payments have to be made each month and so forth. But when you go from that to another type of loan -- now, you will notice, if you have not already noticed -- I think you will subsequently -- that we have, perhaps, a higher percentage of our business beyond the purview of the Act than have some other companies. Niagara has been in this field for many years, in these larger loans. I don't know how far back this goes. It's beyond my experience, maybe Mr. Louis Blake Duff made larger loans, and it's been carried on. But in any event, we do make loans to people who have seasonal incomes. Now, as opposed to the man who borrows $1,000, which is a controlled loan under the

Act, and he selects a term of 24 months and each month he pays approximately the same payment. You have the farmer who comes in and he wants $2,000, $2,500 or $3,000, perhaps more. He has no cash income coming in. He's a mixed farmer. His first crop may be marketed in July. So he comes in to us in May or perhaps April for the purpose of getting money. It could be for seed or equipment or this or that or whatever. And he tells us when he comes in, "Now look, I probably won't be able to pay you anything from now until my first crop comes in in July". "Then I have my strawberries" -- or whatever. "At that time I think I'll be able to pay you two payments. Then I would say that the next month some other crop comes in and I think, perhaps, I'll be able to pay you three payments. Then when we get to August we've got my hay and we've got my apple crop and all of these things and I believe I'll be able to clear the loan". Now here you do not have any regular payment. To quote this man a percentage -- we can still create a percentage, Mr. White, -- but to give him anything significant that he can see, it's difficult because at the same time you might have a man coming in with a regular income and he, too, borrows $3,000. He, too, selects a 12 months term but the one man is paying every month, he's reducing his balance. The other man is not. He's going three months, then three payments, then a month and one payment and then a couple of months and maybe six payments. The rates will be very different even though both of those men are still borrowing $3,000 at our 9% discount rate, due to the manner in which they

are paid.

MR. WHITE: What do you mean the rates will be different?

MR. LAND: The percentage rates will be different.

MR. BUKATOR: Mr. Chairman, may I interject at this time and ask a question? What would make it so difficult for this farmer? If he borrows $1,000 -- I can calculate it rapidly in my own mind -- and he keeps that money for six months and you are to charge him, let's say, on the $1,000, 6%, by way of argument. In six months time he would owe you $30.00 interest. Whatever he paid over and above that would be on the principal. And the following month you would calculate it the same way. I don't find where you have a problem there at all.

MR. LAND: We don't have a problem, Mr. Bukator. We can compute almost anything, but I don't think it is significant to the farmer because, if we are charging a level rate on all of our loans, which I have already stated is 9% discount, the man who is paying every month is reducing this balance each month. Therefore, when he adds up the tail end of his contract and he finds out that he has paid back his $3,000 plus X-dollars, which represents the charges, they will not be the charges of another man who pays on a different basis. The rates are the same. So, therefore, I state, "Is this significant to the man? Is he able to make a comparison?"

MR. BUKATOR: But do you not calculate

your costs, in the first instance, percentagewise?

MR. LAND: Oh, surely.

MR. BUKATOR: You must to come up with a figure. You don't pick a figure out of the sky. You figure you must come out with X amount of dollars --

MR. LAND: That is right.

MR. BUKATOR: And you charge it to the account and the portion that he pays over is taken off his principal and you go on to the next month with the same calculation.

MR. LAND: That is right.

MR. BUKATOR: I just wanted Mr. Reilly to know that I can calculate a little too, you see. That's the only reason I make that point.

MR. REILLY: You can get the same rate throughout the year, Bill.

MR. BUKATOR: Very simple, the same rate, exactly the same rate. Take off the interest and you wind up with the principal and you owe that much interest on that amount of money for the next period of a month. This is not a difficult problem, I wouldn't think. Mind you, this gentleman is not making that point.

MR. WHITE: They should add one rate of interest for the first 30 days, a second rate of interest for the next 90 days and --

MR. BUKATOR: The Mayor in our area used to say this, "You misrued my words". He meant misconstrued my words. You are trying to change my way of reasoning. I'm still holding to the one rate of interest. All you

do is take the interest off the principal sum and you wind up with that much money that you owe interest on for the next month. Mr. Irwin agrees with me anyhow. I'm going to take you in the corner and instruct you. (Laughter)

MR. WHITE: So you think it's possible but complicated and isn't going to mean that much to the customer?

MR. LAND: It is complicated. It is not too complicated for us, Mr. White. I don't know that we would oppose doing this very strenuously if we were instructed to so do, but I don't think that it tells the customer what the Committee is seeking to tell the borrower exactly what he pays. Perhaps by getting into the question of a seasonal worker as opposed to someone else, I have confused it. The easiest way I could say it is this: If we have two people coming in, they are each borrowing an identical amount, we will say $2,000 for sake of argument, one man wants to pay in one year. The other man wants to pay in two years. We are charging them both the same rate, identically the same rate. Effectively the 12 month man is paying, in actuarial rate, 17.78%, the other man is paying 19.83, and yet Niagara is charging identically the same from a percentage point of view. Now if we place ourselves in the position of these two men, one fellow says, "Well why the deuce are they charging me 2% more than you?"

MR. WHITE: It's the discount feature, that's what that difference is.

MR. LAND: It's the peculiarity of what happens when you convert a discount rate into an actuarial rate of return.

MR. WHITE: It's an add-on, you wouldn't get it for that term.

MR. LAND: You would, yes. I can give you the equivalent in add-ons, if you wish. But you do run into that except that the pattern is different. A discount rate continues thusly all the way through, as the term lengthens it gets larger and larger. But with an add-on the rate increases up to about 24 to 30 months and then starts coming back down again. But in neither instance will two contracts drawn for different terms at the same basic rate of interest give you the same actuarial rate.

MR. WHITE: The same, the same rate, yes.

MR. LAND: So my submission, sir, is this: I'm not objecting to supporting anything that anyone wants except that I would be a bit -- if I didn't understand this I would wonder why Niagara Finance might want 2% more from me than my neighbour, Jack Smith, next door.

MR. WHITE: One other quick question. Does the Federal Statute require that the entire amount of the loan be liquidated during the term of the loan?

MR. LAND: It specifies that the loan must be paid in approximately equal monthly payments. Now this, of course, would envision that it would be

liquidated within that term. But then the statute goes on to say that should there be a balance existing, then the maximum rate chargeable on this balance is at 1% a month, beyond the date of final maturity.

MR. WHITE: Thank you.

THE CHAIRMAN: Mr. Sandercock? Mr. Noden?

MR. NODEN: Do you suggest at some future date that this be part of our educational curriculum so that people would understand interest, how it is worked out?

MR. LAND: I think that would be very constructive, sir. Because I think that perhaps of all of the apparently simple subjects, interest is, in a sense, one of the more complex ones.

MR. NODEN: We wouldn't have a need for this today, would we?

MR. LAND: No, maybe not, but of course -- again we come right back down to where I have to repeat what other witnesses have said and I have been in this business quite a long while and I, too, have found that people want to know how much, how much is this thing going to cost me. And if you taught interest I wonder if it weren't used all the time, sir, just how much of this knowledge of the various factors involved -- and it can be quite complex -- how much would be retained by the person who went out to buy and he would work out that one was 17.93 and the other is only 16.2. It seems to me that if a man is thinking of the purchase of something and he knows it is going to

cost him $10.00 if he wants to finance it, or he can save up his money in cash. It's going to cost him x-dollars, then really he's in a position. I think where the problem comes in is in a bunch of other things being levied on people, hidden things, fees, insurance rates, all kinds of things of that kind. Comparisons are always odious, I know, but I have been mixed up with the various Provincial Acts for quite some number of years and if I could be permitted to remark, the problem which this Committee is dealing with today is one which has been dealt with on various provincial levels, state levels in the United States, federal levels, and as yet I haven't seen any complete, sovereign cure-all or end-all or solution or what is best for everybody concerned. I am of the opinion that one of our own Canadian provinces has as good a piece of legislation as any you will find anywhere and that simply states that everything has got to be in type not smaller than 10 points and it spells out every single element of that cost.

MR. NODEN: Is that Alberta?

MR. LAND: Yes, sir. And in our own Mortgage Brokers Act here, I believe that we are to spell out these costs in much that same manner. There is no rate of interest imposed, but everything has to be shown and it just seems impossible that our Canadian consumer would be so irresponsible that they would completely ignore a dollar figure because they don't understand it.

THE CHAIRMAN: Mr. Reilly?

MR. REILLY: Well, Mr. Chairman, my enthusiasm for asking questions has been somewhat deflated. One of my colleagues has admonished me here and reminded me the hour is late and to refrain from asking some of these questions. (Laughter). A number of things have been exposed by various organizations. I am just wondering, could you tell us the average cost of doing business for a finance company? Your overhead cost, or the average?

MR. LAND: I can tell you that in a sort of a way. I don't know how scientific this is or accurate --

MR. REILLY: On a percentage basis or decimal basis -- approximately?

MR. LAND: I can tell you this much. I don't have complete records here and, of course, this would relate only to Niagara. Maybe I could tell you this, maybe this is what you want, Mr. Reilly.

MR. REILLY: I'll ask the members of the opposition to leave. (Laughter)

MR. LAND: We, last year, -- I'm answering your question backwards, if you will forgive me, I will give you the answer specifically in writing as soon as I have access to better records than I have here -- but I can tell you that last year on average funds employed, that is, all the money that Niagara used in this business, on an average, our net profit after taxes was 2.9%, in 1962. Now you would have to take the taxes out --

MR. REILLY: Oh, no, I don't want you

to divulge private information.

MR. LAND: Of course, the small loans end of it and most of the others are embodied in the report of the Department of Insurance, which is available to the public anyway, so we have very few things to hide except the names of our customers, we wouldn't want to divulge those.

MR. REILLY: How about your rebate system? Do you use the sum of the digits?

MR. LAND: We use the sum of the digits, that is right. We have never used anything else.

MR. REILLY: Good.

THE CHAIRMAN: Any other questions, gentlemen? Now, Mr. Land, was it your intention to read this brief that you have distributed on behalf of Niagara Realty Limited? Was that your intention?

MR. LAND: Mr. Chairman, as you will note in the very early part of that submission, we are new in the business of mortgage lending. I might say that Niagara Realty Limited is not owned by Niagara Finance Company Limited, it is not a subsidiary, it is a separate company entirely. The only connection between the fact that Mr. London and I delivered these to the Secretary of the Committee and the fact that we presented this, is that it happens that we have overlapping administrative responsibilities. But the boys of Niagara Finance Company Limited do not make mortgage loans. We have separate staffs, separate companies, separate payrolls, separate everything. I know we are awfully late coming along talking about mortgage

lending.

MR. PRICE: You are the Vice-President of the Company?

MR. LAND: I am, yes. At the time that the Committee was hearing on these questions of lending on the security of real property, we weren't in the business. Now I thought there might be some value in supplying the Committee for perusal at some convenient time, what our plan involves.

THE CHAIRMAN: Well, would you like to make any comment in a general way on the brief? We can take the brief and read it.

MR. LAND: I can make a couple of general comments.

MR. REILLY: Perhaps you can answer one question. Mr. Chairman, in the brief, under the loan limits, it says, "Niagara Realty lends up to 80% of the appraised value of residential properties." Does it not come under the same Act as the trust companies where they lend up to 66 2/3rds%?

MR. LAND: No, sir.

MR. REILLY: Is there a limit of 80% on residential properties?

MR. LAND: No, sir, only a limit imposed by what we hope is good judgment.

MR. REILLY: Yes. So there is no limit as far as you are concerned?

MR. LAND: Not under this type of incorporation.

MR. WHITE: (Question inaudible)

MR. LAND: It's very similar, Mr. White. There are some points of difference. I don't like to make comparisons with any one other company, but I might say this, that in the case of Niagara we have a rate ranging between 12 and 15% per annum, simple interest, we do not make any charge for prepayment. To this extent, I think, we are unique. In theory a man can make a loan with Niagara Realty today and come back next week and pay one week's interest and no minimum. There is no penalty. To this extent, I think we are a little different. We also have no fee for appraisals. If we find it necessary to use a commercial appraiser, we pay the appraiser. In very rare instances mostly involved in revenue-producing properties, where the appraisal involves substantially more than the normal house appraisal, we might then negotiate with the prospective borrower but to the best of my knowledge, since last January, we have never charged anyone for an appraisal.

MR. REILLY: You don't have a minimum service charge of any kind?

MR. LAND: No, sir. We have a minimum service charge only after the loan has actually been signed up and then the charge is not Niagara's charge, the charge is the Solicitor's for his normal fees in connection with the registration.

MR. IRWIN: Mr. Land, you needn't answer this if you don't wish to but you have said that Niagara Finance and Niagara Realty are neither associated, subsidiary or parent. Would it be fair to ask whether or not the shareholders of Niagara Realty and the share-

holders of Niagara Finance had substantial identity?

MR. LAND: Oh, yes, sir, that is very fair and that is also very true. Both Niagara Finance Company Limited and Niagara Realty Limited and a further company, Niagara Mortgage and Loan Company Limited, which operates in all Provinces of Canada except Ontario, which is the field exclusively of Niagara Realty, all of these companies are owned by Industrial Acceptance Corporation.

MR. IRWIN: I see.

MR. LAND: The reason for my emphasizing the point, Mr. Irwin, I don't want it misunderstood that this is part of Niagara Finance. It just happens that --

MR. IRWIN: I can understand, entirely different corporations but the ownership is the same.

MR. LAND: The ownership is the same, sir, yes.

THE CHAIRMAN: Any other questions, gentlemen? Well, Mr. Land --

MR. LAND: Mr. Chairman, might I be permitted -- I know I have talked a lot and it's late -- I just want to make one point because I think it's a point that I perhaps could answer a little better than anyone who has yet appeared here. Someone this morning, I believe a member of the Committee, inquired about the United Kingdom rates and since we do business in the United Kingdom, we have four branches there, I would say that the United Kingdom rate is 4% in the sense that up to 4% the onus is on the borrower

to prove that the rate is unconscionable. If the rate is above 4% then the onus is on the lender to prove that it is conscionable. Now I don't want you to misunderstand --

MR. REILLY: That's 4% monthly?

MR. LAND: Monthly, that's right. But Niagara does not charge 4%, under any circumstances, nor have we ever. When we first opened there our first experimental branch, we started at 3, we reduced our rate on everything but the very tiny amounts to 2½ and now, currently, the rate on loans within the normal range of what we lend in here, is 2. So on a great bulk of our current business being put on now, we are charging about half of what we could be permitted under the Act.

THE CHAIRMAN: Is that a competitive rate?

MR. LAND: There is no competition worthy of the name, really. There is one Company -- I'm sorry, that's an exaggeration -- there is one other Company over there which operates on about the same basis as we do. Otherwise the field is pretty well in the hands of individuals and partnerships. It isn't nearly as sophisticated a business as it is here.

THE CHAIRMAN: Mr. Land and Mr. London, we do appreciate your coming forward and giving us the benefit of your experience in this business and the quality of your briefs, which have all been of a similar nature today. I'm sure that there is much in these briefs that we will be able to, will be of help to us

in writing a report. We appreciate your coming.

MR. LAND: Thank you, Mr. Chairman, we appreciate having the opportunity of being heard. And if there is anything further we can supply any member of the Committee, we will be delighted to do so.

THE CHAIRMAN: Thank you very much. We will adjourn until 10 o'clock tomorrow morning to meet here in the same room.

---MEETING ADJOURNED AT 5:30 P.M.

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Table #1

NIAGARA FINANCE COMPANY LIMITED

NUMBER AND DISTRIBUTION OF CUSTOMERS

BY

OCCUPATIONAL CLASSIFICATION

| Occupational Classification | Number of Customers | Per Cent Distribution |
|---|---|---|
| 1. Skilled Labour & Tradesmen | 601 | 24.81 |
| 2. Service | 550 | 22.71 |
| 3. Farmers, Fishermen, etc. | 265 | 10.94 |
| 4. Unskilled Labour | 213 | 8.80 |
| 5. Clerical | 193 | 7.97 |
| 6. Supervisory | 158 | 6.52 |
| 7. Salesmen and Agents | 132 | 5.45 |
| 8. Professional | 82 | 3.39 |
| 9. Proprietary & Managerial | 76 | 3.14 |
| 10. Armed Forces | 64 | 2.64 |
| 11. Others or Unknown | 88 | 3.63 |
| TOTAL | 2,422 | 100.00% |

OCCUPATIONAL CLASSIFICATIONS

1. Skilled Labourers & Tradesmen - Machinists, Tool & Die Makers, Electricians, Plumbers, Mechanics, Carpenters, Masons, Bricklayers, Plasterers, Painters, Tailors, Butchers, Bakers.

2. Service - Policemen, Firemen, Barbers, Janitors, Housekeepers, Porters, Launderers, Taxi Drivers, Chauffeurs, Railwaymen, Truck Drivers

3. Farmers - Farmers, Fishermen, Trappers, Hunters, Lumbermen

4. Labourers - unskilled

5. Clerical - Office clerks, Bookkeepers, Stenographers, Secretaries, Typists, Office machine operators

6. Supervisory - Store Managers, Department Managers, Supervisors, Foremen

7. Salesmen & Agents

8. Professional - Accountants, Architects, Artists, Auditors, Clergymen, Dentists, Doctors, Engineers, Lawyers, Musicians, Nurses, Social Workers, Statisticians, Teachers, Officers in Armed Forces

9. Proprietary & Managerial - Business owners, managers, officials

10. Armed Forces - Other than commissioned officers

11. Others or Unknown - (Students, Pensioners, etc.)

Table #2

NIAGARA FINANCE COMPANY LIMITED

INCOME CHARACTERISTICS OF CUSTOMERS

| Annual Income Bracke | Average Annual Income | Number of Customers | Per Cent Distribution |
|---|---|---|---|
| Up to $1,200 | 878 | 21 | 0.87 |
| 1,201 - 2,400 | 2,092 | 246 | 10.16 |
| 2,401 - 3,600 | 3,121 | 697 | 28.78 |
| 3,601 - 4,800 | 4,201 | 738 | 30.47 |
| 4,801 - 6,000 | 5,392 | 401 | 16.55 |
| 6,001 - 7,000 | 6,421 | 150 | 6.19 |
| 7,001 - 8,000 | 7,414 | 99 | 4.09 |
| 8,001 - 9,000 | 8,505 | 29 | 1.20 |
| 9,001 - 10,000 | 9,547 | 18 | 0.74 |
| 10,001 - 15,000 | 11,657 | 22 | 0.91 |
| Over 15,000 | 15,744 | 1 | 0.04 |
| TOTAL | 4,277 | 2,422 | 100.00 |

Table #3

Average Age of Borrowers

| Average Age | % |
|---|---|
| 22 | 13.1 |
| 29 | 33.2 |
| 33 | 25.8 |
| 49 | 17.8 |
| 57 | 4.9 |
| 64 | 5.2 |
| | 100.0% |

Table #4

NIAGARA FINANCE COMPANY LIMITED

PURPOSE OF LOANS

| Purpose of Loan | Number of Customers | Per Cent Distribution |
|---|---|---|
| Debt consolidation | 680 | 28.09 |
| Automobile repairs or purchases | 514 | 21.22 |
| Household repairs | 165 | 6.81 |
| Home furnishings and appliances | 117 | 4.83 |
| Travel expense & holidays | 109 | 4.50 |
| Clothing | 98 | 4.05 |
| Medical, dental or hospital bills | 97 | 4.01 |
| Miscellaneous equipment | 86 | 3.51 |
| Insurance | 60 | 2.48 |
| Taxes | 60 | 2.48 |
| Assistance to relatives or friends | 51 | 2.11 |
| Wedding expenses | 41 | 1.69 |
| Moving expenses | 28 | 1.16 |
| Miscellaneous or unknown | 316 | 13.06 |
| TOTAL | 2,422 | 100.00% |